



# Sustainability Accounting Standards

## **PROPOSED CHANGES TO PROVISIONAL STANDARDS**

### **EXPOSURE DRAFTS**

### **REDLINE OF STANDARDS FOR PUBLIC COMMENT**

## SERVICES SECTOR

Education  
Professional & Commercial Services  
Hotels & Lodging  
Casinos & Gaming  
Leisure Facilities  
Advertising & Marketing  
Media & Entertainment

Prepared by the  
Sustainability Accounting Standards Board®

# SERVICES SECTOR

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SERVICES SECTOR

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# EDUCATION\*

## Sustainability Accounting Standard

### PROPOSED CHANGES TO PROVISIONAL STANDARDS

### EXPOSURE DRAFT

### REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0101

# EDUCATION

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Education industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

The Education industry includes education institutions that are publicly held, profit-seeking, and generate revenue from student fees. At the primary and secondary levels, this includes mostly Education Management Organizations (EMOs) and some businesses. Services are delivered on a full-time, part-time, distance-learning, and occasional basis across establishments such as junior colleges, business and secretarial schools, colleges, universities, and professional schools including medical, pharmaceutical, and veterinary programs. In contrast to traditional non-profit education, an increasing amount of students in for-profit universities take courses online.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Education industry, the SASB has identified the following sustainability disclosure topics:

- Quality of Education & Gainful Employment
- Marketing & Recruiting Practices
- Data Security

### 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a

<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.<sup>9</sup>

### 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

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<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(Item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 (“Description of Business”) requires a company to provide a description of its business and its subsidiaries. Item 103 (“Legal Proceedings”) requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) (“Risk Factors”) requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, “**Sustainability-Related Information**,” with a section that includes the material topics, performance metrics, and management’s view with respect to corporate positioning. See SASB’s “Mock 10-Ks” for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 (“Other Events”). This provision states that “The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders.” Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via

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<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

<http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

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<sup>15</sup> The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC  | CATEGORY     | UNIT OF MEASURE        | CODE     |
|--|--------------|------------------------|----------|
| Number of students enrolled <sup>19</sup>                          | Quantitative | Number                 | SV0101-A |
| Number of applications received for enrollment                     | Quantitative | Number                 | SV0101-B |
| Average registered credits per student, percentage online          | Quantitative | Number, Percentage (%) | SV0101-C |
| Number of (1) teaching staff <sup>20</sup> and (2) all other staff | Quantitative | Number                 | SV0101-D |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to **SV0101-A**—Students enrolled is defined as those students who have matriculated into a program for which a degree, diploma, certificate, or other formal award is expected to be conferred

<sup>20</sup> Note to **SV0101-D**—Teaching staff include any faculty, adjunct and visiting faculty, instructors, and other educators directly involved in teaching roles.

systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>21</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

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<sup>21</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

# Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC  | ACCOUNTING METRIC   | CATEGORY                       | UNIT OF MEASURE               | CODE              |
|--|---|--------------------------------|-------------------------------|-------------------|
| <b>Quality of Education &amp; Gainful Employment</b> | Graduation rate   | Quantitative                   | Percentage (%)                | SV0101-01         |
|  | On-time completion rate   | Quantitative                   | Percentage (%)                | SV0101-02         |
|  | Job placement rate  | Quantitative                   | Percentage (%)                | SV0101-03         |
|  | (1) Debt-to-annual earnings rate and (2) debt-to-discretionary earnings rate  | Quantitative                   | Percentage (%)                | SV0101-04         |
|  | Program cohort default rate   | Quantitative                   | Percentage (%)                | SV0101-05         |
| <b>Marketing &amp; Recruiting Practices</b>          | Description of policies to assure disclosure of key performance statistics to prospective students in advance of collecting any fees and discussion of outcomes | Discussion and Analysis        | n/a                           | SV0101-06         |
|  | Amount of legal and regulatory fines and settlements associated with advertising, marketing, and mandatory disclosures  | Quantitative                   | U.S. Dollars (\$)             | SV0101-07         |
|  | (1) Instruction and student services expenses and (2) marketing and recruiting expenses   | Quantitative                   | U.S. Dollars (\$)             | SV0101-08         |
|  | Revenue from: (1) Title IV funding, (2) GI Bill funding, and (3) private student loans <sup>22</sup>  | Quantitative                   | U.S. Dollars (\$)             | SV0101-09         |
| <b><u>Data Security</u></b>                          | <u>Discussion of management approach to identifying and addressing data security risks</u>  | <u>Discussion and Analysis</u> | <u>n/a</u>                    | <u>TA06-01-01</u> |
|  | <u>Discussion of policies and practices relating to collection, usage, and retention of customer information</u>  | <u>Discussion and Analysis</u> | <u>n/a</u>                    | <u>TA06-01-02</u> |
|  | <u>Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected</u>                | <u>Quantitative</u>            | <u>Number, Percentage (%)</u> | <u>TA06-01-03</u> |

<sup>22</sup> Note to **SV0101-09**—Disclosure shall include a discussion of risks and opportunities associated with these and other funding sources.

# Quality of Education & Gainful Employment

## Description

Increasing undergraduate and graduate tuitions are pushing more students to take on federal and private loans to finance their education. Rapid growth in student debt in the U.S. creates significant economic and social externalities if student loans go into default. Most of the programs at for-profit colleges prepare students for gainful employment in recognized occupations. Therefore, colleges need to provide high-quality education and ensure completion of programs in order to increase the chances of graduates obtaining employment and paying off their loans. In the absence of sufficient educational quality, graduates may end up with debt and few employable skills. With recent amendments to the Gainful Employment (GE) Rule, there is increased recognition of the importance of managing and disclosing factors such as graduation rates, default rates, and job placement rates as indicators of the quality of education of an institution. Performing poorly on accountability metrics may jeopardize eligibility for funding under Title IV of the Higher Education Act, and therefore, many institutions' main source of revenue. At the same time, transparent disclosure of performance metrics to prospective students is directly related to the institutions' ability to attract and retain students.

## Accounting Metrics

### SV0101-01. Graduation rate

.01 The registrant shall calculate the graduation rate, consistent with methodology outlined in the Student Right-to-Know Act, as the percentage of completers in the revised adjusted cohort who are conferred a formal award within 150 percent% of normal time to completion, where:

- Completers are defined as students who are conferred a degree, diploma, certificate, or other formal award.
- Normal time to completion is defined by the Integrated Postsecondary Education Data System (IPEDS) as the amount of time necessary for a student to complete all requirements for a degree or certificate according to the institution's catalog. This is typically four years (eight semesters or trimesters, or 12 quarters, excluding summer terms) for a bachelor's degree in a standard term-based institution; two years (four semesters or trimesters, or six quarters, excluding summer terms) for an associate's degree in a standard term-based institution; and the various scheduled times for certificate programs.
- For the purposes of this disclosure, the registrant shall define "cohort" consistent with its reporting under the Student Right-to-Know Act. If the registrant does not report under the Student-Right-to-Know-Act, then it shall define cohort as the collective group of students entering a particular program at the same time.
- Revised Cohort is defined as the initial cohort after revisions are made. Cohorts may be revised if an institution discovers that incorrect data were reported in an earlier year.
- Adjusted Cohort is defined as the result of removing any allowable exclusions from a cohort (or subcohort) in accordance with the definitions for the Graduation Rate component under the Student Right-to-Know Act, where:

- “Exclusions are defined as those students who may be removed (deleted) from a cohort (or subcohort). For the Graduation Rates reporting, students may be removed from a cohort if they left the institution for one of the following reasons: death or total and permanent disability; service in the armed forces (including those called to active duty); service with a foreign aid service of the federal government, such as the Peace Corps; or service on official church missions.”

.02 This disclosure is consistent with the Graduation Rate as reported in IPEDS database.

- The scope of disclosure includes those cohorts for which 150 percent% of normal time to completion occurred during the fiscal year.

.03 The graduation rate is calculated as the total number of completers within a cohort who are conferred a formal award within 150 percent% of normal time to completion, divided by the revised adjusted cohort.

#### **SV0101-02. On-time completion rate**

.04 The registrant shall calculate the on-time completion rate as the percentage of completers that are conferred a formal award within 100 percent% of normal time to completion, where:

- Completers are defined as students who are conferred a degree, diploma, certificate, or other formal award.
- Normal time to completion is defined by IPEDS as the amount of time necessary for a student to complete all requirements for a degree or certificate according to the institution's catalog. This is typically four years (eight semesters or trimesters, or 12 quarters, excluding summer terms) for a bachelor's degree in a standard term-based institution; two years (four semesters or trimesters, or six quarters, excluding summer terms) for an associate's degree in a standard term-based institution; and the various scheduled times for certificate programs.
- For the purposes of this disclosure, the registrant shall define “cohort” consistent with its reporting under the Student Right-to-Know Act. If the registrant does not report under the Student-Right-to-Know-Act, then it shall define cohort as the collective group of students entering a particular program at the same time.
- Revised Cohort is defined as the initial cohort after revisions are made. Cohorts may be revised if an institution discovers that incorrect data were reported in an earlier year.
- Adjusted Cohort is defined as the result of removing any allowable exclusions from a cohort (or subcohort) in accordance with the definitions for the Graduation Rate component under the Student Right-to-Know Act, where:
  - “Exclusions are defined as those students who may be removed (deleted) from a cohort (or subcohort). For the Graduation Rates reporting, students may be removed from a cohort if they left the institution for one of the following reasons: death or total and permanent disability; service in the armed forces (including those called to active duty); service with a foreign aid service of the federal government, such as the Peace Corps; or service on official church missions.”

- The scope of disclosure includes those cohorts for which 100 percent% of normal time to completion occurred during the fiscal year.

.05 The on-time completion rate is calculated as the total number of completers within a cohort who are conferred a formal award within 100 percent% of normal time to completion, divided by the revised adjusted cohort.

### **SV0101-03. Job placement rate**

.06 The registrant shall disclose the job placement rate for completers, consistent with the methodology required for short-term undergraduate programs (34 CFR § 668.8(g)), where:

- Completers are defined as students who are conferred a degree, diploma, certificate, or other formal award.
- The job placement rate is calculated as the number of completers who, within 180 days of the day they received their degree, certificate, or other recognized educational credential, obtained gainful employment in the recognized occupation for which they were trained or in a related, comparable, recognized occupation and are employed, or have been employed, for at least 13 weeks following receipt of the credential from the institution; divided by the total number of completers.
- The measurement period for calculating the job placement rate covers the completers who are conferred a formal award at least 271 days before the end of the registrant's fiscal year, to allow for the job placement and retention timeframes outlined above. Completers who are conferred an award with fewer than 271 days remaining before the end of the registrant's fiscal year are counted in the job placement rate for the next fiscal year.
- For a registrant whose fiscal year is aligned with the calendar year, it will include in its current year disclosure the completers that are conferred a formal award on or before April 4 of the current year; completers conferred a formal award after April 4 will be included in the disclosure for the next fiscal year. In general, for registrants whose fiscal year is aligned with the calendar year, spring and winter graduates will be included in the job placement rate for the fiscal year following program completion.

### **SV0101-04. (1) Debt-to-annual earnings rate and (2) debt-to-discretionary income rate**

.07 The registrant shall calculate the debt-to-earnings and debt-to-discretionary income rates in accordance with the methodology outlined in the Gainful Employment Rule § 668.404, 79 Fed. Reg. 64889 (October 31, 2014), where:

- Debt-to-annual earnings rate is the percentage of a Gainful Employment (GE) program's annual loan payment compared to the annual earnings of the students who completed the program, as calculated under §668.404.
- Debt-to-discretionary income rate is the percentage of a GE program's annual loan payment compared to the discretionary income of the students who completed the program, as calculated under §668.404.

- The scope of this disclosure applies to the registrant's educational programs that are classified as GE programs.

#### **SV0101-05. Program cohort default rate**

.08 The registrant shall disclose the program cohort default rate (pCDR) for all educational programs classified as GE programs, in accordance with the methodology outlined in Subpart R of the Proposed Gainful Employment Rule § 668.407, 79 Fed. Reg. 16426 (March 25, 2014), where:

- pCDR is the percentage of borrowers in a cohort who defaulted on their loans.
- Borrowers in a cohort for a fiscal year include all of an institution's current and former students who, during that fiscal year, entered repayment on any Federal Stafford Loan, Federal SLS Loan, Direct Subsidized Loan, or Direct Unsubsidized Loan that they received to enroll in the GE program, or on the portion of a loan made under the Federal Consolidation Loan Program or the Federal Direct Consolidation Loan Program that is used to repay those loans.
- Borrowers in a cohort who are in default include any borrowers who, before the end of the second fiscal year following the fiscal year the borrower entered repayment, default on any FFELP loan that was used to include the borrower in the cohort or on any Federal Consolidation Loan Program loan that repaid a loan that was used to include the borrower in the cohort.
- The measurement period for calculating the pCDR covers the borrowers who entered repayment three fiscal years prior to the year in which pCDR is calculated, and the percentage is based on those who defaulted by end of the subsequent two fiscal years. For example, the 2016 pCDR calculation would be based on the borrowers who entered repayment in fiscal year 2013, and the percentage would be those who defaulted by end of fiscal year 2015.

.09 The pCDR percentage is calculated by dividing the number of borrowers in the cohort who are in default by the number of borrowers in the cohort.

#### **Additional References**

#### **Notes**

The Gainful Employment Rule establishes these requirements for GE programs, defined as programs that are required "to lead to gainful employment in a recognized occupation," in order for them to be eligible for Title IV federal financial aid.

For the Graduation Rate in [IPEDS](#), data are collected on the number of students entering the institution as full-time, first-time, degree/certificate-seeking undergraduate students in a particular year (cohort), by race/ethnicity and gender; the number completing their program within 150 percent of normal time to completion; and the number that transfer to other institutions if transfer is part of the institution's mission.

#### **Additional References**

"Student Right-to-Know and Campus Security Act" (P.L. 101-542) was passed by Congress November 9, 1990. Title I, Section 103 of the Act requires institutions eligible for Title IV funding to calculate completion or graduation rates of certificate- or degree-seeking full-time students entering that institution, and to disclose these rates to all students and prospective students.

"Calculating Job Placement Rates Under Gainful Employment Regulations," Prepared for IPEDS Technical Review Panel, March 1-2, 2011 Washington, DC, February 2011, available online [here](#).

# Marketing & Recruiting Practices

## Description

The quantity of students admitted to programs at for-profit education providers directly relates to the amount of revenue generated. Therefore, companies may turn to aggressive recruitment strategies, often spending significant amounts of money on marketing, which can take away resources from instruction and student services. Some companies may even use deceptive or false performance metrics to attract prospective students. Aggressive and unethical recruiting practices, such as targeting of veterans or incentive-compensation of recruiters, have placed for-profit education companies under scrutiny. The transparency framework of the new GE Rule aims to formalize the disclosure of relevant performance metrics to students to help them make informed decisions. False or misleading advertising may result in significant fines and ultimately, under the proposed regulations, could lead to a loss of Title IV eligibility. Additionally, even for schools that maintain Title IV eligibility, there are limits on the amounts of federal funding that schools can receive, such as those limits outlined in the 90/10 Rule and the VA Rule. These limits on Federal funding sources may incentivize schools to mislead students into taking on private loans that they may not be able to repay, presenting a significant reputational risk to companies in the industry.

## Accounting Metrics

### **SV0101-06. Description of policies to assure disclosure of key performance statistics to prospective students in advance of collecting any fees and discussion of outcomes**

- .10 The registrant shall describe the scope, format, and mechanisms for disclosing key performance statistics to prospective students in advance of collecting any fees, where:
  - A prospective student is defined as someone who is considering attending a school, but is not yet enrolled.
- .11 Key performance statistics are defined as performance metrics that are legally required to be disclosed to prospective students, such as may be required under the GE Rule, the Student Right to Know Before You Go Act of 2013 (H.R. 1937), and the Campus Security Act (P.L. 101-542).
- .12 Examples of relevant policies and practices include, but are not limited to, those relating to:
  - Where information is made publicly available and how it is broadly disseminated, such as through inclusion of the key performance statistics on the registrant's website or in promotional materials.
  - How information is communicated, such as by requiring disclosure in certain direct interactions with prospective students (e.g. requirements that recruiters and admissions staff disclose key performance statistics during student interviews).
  - Assuring the sufficiency of disclosures, such as through signed acknowledgement by prospective students indicating receipt and understanding of the key performance statistics).
- .13 The registrant shall discuss outcomes and impacts of these disclosure policies and practices, such as direct impacts on enrollment and Title IV eligibility and indirect impacts on tuition prices and offerings.

**SV0101-07. Amount of legal and regulatory fines and settlements associated with advertising, marketing, and mandatory disclosures**

- .14 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with violations of disclosure requirements, including, but not limited to, the GE Rule, the Student Right to Know Before You Go Act, and the Student Right-to-Know and Campus Security Act.
- .15 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

**Note to SV0101-07**

- .16 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., omission of disclosure, misleading disclosure, etc.) of fines and settlements.
- .17 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

**SV0101-08. (1) Instruction and student services expenses and (2) marketing and recruiting expenses**

- .18 The registrant shall disclose its instruction and other student services expenses, where:
  - “Instruction and student services expenses” refers to all expenses that directly support educational quality or provide related services to current students, including:
    - Faculty compensation, including for teaching staff, academic administrators, and academic support personnel
    - Costs related to the development and enhancement of educational programs
    - Educational/course materials, equipment, and supplies, such as costs of textbooks, laptop computers, and laboratory supplies
    - Student advisory and education-related support activities, such as career services
    - Owned and leased facility costs for classrooms and other educational properties and student accommodation, including rent and utilities
    - Depreciation and amortization of properties and equipment used in the provision of educational and career enhancement services and accommodation facilities.
- .19 The registrant shall disclose its marketing and recruiting expenses, where:
  - Marketing and recruiting expenses include recruiting (e.g., recruiter salaries), marketing and advertising expenses (e.g., advertising expenses, compensation for marketing personnel, production of marketing materials, activities for brand promotion purposes, etc.).

## **SV0101-09. Revenue from: (1) Title IV funding, (2) GI Bill funding, and (3) private student loans**

.20 The registrant shall disclose its revenue obtained from (1) Title IV funding, (2) GI Bill funding, and (3) private student loans, where:

- Title IV funding is defined as money borrowed directly from the U.S. Department of Education to help cover the cost of higher education at a participating postsecondary institution under Title IV of the HEA.<sup>23</sup> Funds include loans, grants, and work-study programs that are provided by the federal government to eligible borrowers through participating schools.
- GI Bill funding is defined as any Department of Veterans Affairs education benefit earned by members of Active Duty, Selected Reserve and National Guard Armed Forces and their families.
- Private student loans (PSLs) are defined as any loans made for postsecondary education that are not Federal Student Loans, as defined above. These loans are made by such lenders as banks, credit unions, state agencies, or schools. PSLs exclude 12-month payment plans that do not charge interest on short-term balances due to schools.

### **Note to SV0101-09**

.21 The registrant shall discuss the risks and opportunities associated with these and other funding sources.

.22 Examples of risks include loss of Title IV eligibility; sensitivity to limits on funding sources, such as Title IV funding limits under the 90/10 Rule or GI Bill funding limits under the VA Rule, as well as risk from default on private student loans, such as on self-originated loans or loan guarantees.

.23 Examples of opportunities associated with these funding sources include potential for growth in revenue from Title IV funds of GI Bill funding, if revenue from these sources is below funding limits.

### **Notes**

#### **Additional References**

The GI Bill includes several VA-administered education programs, including the Post-9/11 GI Bill, The Montgomery GI Bill, the Reserve Educational Assistance Program (REAP), and the Veterans Educational Assistance Program (VEAP). Information available [here](#).

#### **Additional References**

The Student Right to Know Before You Go Act of 2013 (H.R. 1937), Amends Title IV (Student Assistance) of the Higher Education Act of 1965 (HEA) to require institutions of higher education (IHEs) to submit to the Secretary of Education data that the Secretary determines to be sufficient to complete all student components of reporting required for IPEDS. This bill was introduced in the House on May 9, 2013. H.R. 1937 would require the Secretary of

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<sup>23</sup> [Programs](#) authorized under Title IV of the Higher Education Act

Education to calculate, within two years of this Act's enactment, the above noted metrics at the institutional and program-specific levels.

Information on Federal Student loans and Private Student loans available [here](#).

# Data Security

## Description

Colleges and universities are frequent and compelling targets for cyber criminals. The industry is likely subject to a high number of breaches due to the large number of personal records processed and stored, the mix of intellectual property and personally identifiable information held (e.g., social security numbers, vaccination records, other information required for admission), and the open, collaborative environment of many campuses. Compromise of sensitive information through cybersecurity breaches, other malicious activities, or student negligence may result in significant social externalities such as identity fraud and theft. Data breaches may compromise public perception of the effectiveness of a college's security measures, which could result in reputational damage and difficulty in attracting and retaining students, as well as significant costs to fix the consequences of a breach and prevent future breaches. Enhanced disclosure on the number and nature of security breaches, management strategies to address these risks, and policies and procedures to protect customer information will allow shareholders to understand the effectiveness of management strategies that colleges employ regarding this issue.

## Accounting Metrics

### **TA06-01-01. Discussion of management approach to identifying and addressing data security risks**

.24 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, modification of information, and/or denial of service.
- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.25 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, structure of products and services, selection of business partners, employee training, or use of technology.

.26 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.27 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the [SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, this includes disclosing when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information to not necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.28 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.29 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- “[Framework for Improving Critical Infrastructure Cybersecurity, Version 1.1](#),” January 10, 2017, National Institute of Standards and Technology (NIST)

#### **TA06-01-02. Discussion of policies and practices relating to collection, usage, and retention of customer information**

.30 The registrant shall describe the nature, scope, and implementation of its policies and practices related to customer privacy, with a specific focus on how it addresses the collection, usage, and retention of customer information, including demographic data, confidential business information, and personally identifiable information, where:

- Customer information includes information that pertains to a customer's attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, personally identifiable information, or confidential business information.
- Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
- Confidential Business Information (CBI) is defined as information that concerns or relates to the trade secrets, processes, operations, identification of customers, inventories, or other information of commercial value, the disclosure of which is likely to cause substantial harm to the competitive position of the person, firm, partnership, or corporation from which the information was obtained. The term "confidential business information" includes "proprietary information" within the meaning of section 777(b) of the Tariff Act of 1930 ([19 U.S.C. 1677f\(b\)](#)).
- Personally Identifiable Information (PII) is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>24</sup>

.31 The registrant shall describe the information “lifecycle” (i.e., collection, use, retention, processing, disclosure, and destruction of information) and how information-handling practices at each stage may affect individuals’ privacy.

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<sup>24</sup> Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information, GAO Report 08-536, May 2008.

.32 The registrant shall discuss the degree to which its policies and practices address similar issues as outlined in the [OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002 \(M-03-22\)](#), including use of Privacy Impact Assessments (PIAs), where:

- A PIA is an analysis of how information is handled that ensures handling conforms to applicable legal, regulatory, and policy requirements regarding privacy; determines the risks and effects of collecting, maintaining, and disseminating information in identifiable form in an electronic information system; and examines and evaluates protections and alternative processes for handling information in order to mitigate potential privacy risks.
- As outlined by OMB M-03-22, PIAs must analyze and describe: (a) what information is to be collected, (b) why the information is being collected, (c) the intended use of the information, (d) with whom the information will be shared, (e) what opportunities individuals have to decline to provide information (i.e., where providing information is voluntary) or to consent to particular uses of the information (other than required or authorized uses), including how individuals can grant consent, and (f) how the information will be secured, among other government-specific requirements.

**TA06-01-03. Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected**

.33 The registrant shall calculate and disclose the total number of data security breaches identified during the fiscal year.

- Data security breaches are defined as instances of internal and/or external unauthorized acquisition, access, use, or disclosure of customer information.
- The scope of disclosure shall be limited to data security breaches that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality and integrity.

.34 Disclosure shall be additional but complementary to the SEC's [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represent a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.35 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any

other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>25</sup>

- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise the investigation.

.36 The registrant shall disclose the total number of unique customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

- Accounts which the registrant cannot verify as belonging to the same user shall be disclosed separately.

**Note to TA06-01-03**

.37 The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

.38 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.39 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

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<sup>25</sup> *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.



SERVICES SECTOR

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# PROFESSIONAL & COMMERCIAL SERVICES\*

Sustainability Accounting Standard

**PROPOSED CHANGES TO PROVISIONAL STANDARDS**

**EXPOSURE DRAFT**

**REDLINE OF STANDARD FOR PUBLIC COMMENT**

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0102

# PROFESSIONAL & COMMERCIAL SERVICES

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Professional & Commercial Services industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

The Professional & Commercial Services industry includes companies that rely on the unique skills and knowledge of their employees to provide services to a range of clients. The services are often provided on an assignment basis, where an individual or team is responsible for the delivery of services to clients. Offerings include, but are not limited to, management and administration consulting services, such as staffing and executive search services; legal, accounting, and tax preparation services; and financial and non-financial information services. Non-financial information service providers differentiate based on an array of topics such as energy, healthcare, real estate, technology, and science. Financial information service companies include credit and rating agencies as well as data and portfolio analytics providers. Customers of professional and commercial service providers range from private and public for-profit institutions to non-profit organizations.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Professional & Commercial Services industry, the SASB has identified the following sustainability disclosure topics:

- Professional Integrity
- Data Security
- Workforce Diversity & Engagement

<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

## 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.<sup>9</sup>

## 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

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<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(Item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

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<sup>15</sup> The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC  | CATEGORY     | UNIT OF MEASURE       | CODE     |
|--|--------------|-----------------------|----------|
| Number of employees by: (1) full-time and part-time, (2) temporary, and (3) contract | Quantitative | Number                | SV0102-A |
| Employee hours worked, percentage billable   | Quantitative | Hours, Percentage (%) | SV0102-B |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>19</sup>

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> The AICPA’s Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

## Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC                            | ACCOUNTING METRIC   | CATEGORY                | UNIT OF MEASURE        | CODE                                      |
|----------------------------------|---|-------------------------|------------------------|---|
| Professional Integrity           | Description of management approach to assuring professional integrity and duty of care  | Discussion and Analysis | n/a                    | SV0102-01                                 |
|                                  | <del>Amount</del> <u>Total amount of losses as a result of legal and regulatory fines and settlements proceedings</u> associated with professional integrity or duty of care <sup>20</sup>                | Quantitative            | U.S. Dollars (\$)      | <del>SV0102-02</del><br><u>TA06-02-01</u> |
| Data Security                    | Discussion of management approach to identifying and addressing data security risks   | Discussion and Analysis | n/a                    | SV0102-03                                 |
|                                  | Discussion of policies and practices relating to collection, usage, and retention of customer information   | Discussion and Analysis | n/a                    | SV0102-04                                 |
|                                  | Number of data security breaches <del>and</del> <u>percentage involving customers' confidential business information (CBI) or personally identifiable information (PII), number of customers affected</u> | Quantitative            | Number, Percentage (%) | <del>SV0102-05</del><br><u>TA06-03-01</u> |
| Workforce Diversity & Engagement | Percentage of gender and racial/ethnic group representation for: (1) executives, (2) all other non-contingent staff, and (3) contingent staff   | Quantitative            | Percentage (%)         | SV0102-06                                 |
|                                  | (1) Voluntary and (2) involuntary turnover rate   | Quantitative            | Percentage (%)         | SV0102-07                                 |
|                                  | Employee engagement as a percentage <sup>21</sup>   | Quantitative            | Percentage (%)         | SV0102-08                                 |

<sup>20</sup> Note to ~~SV0102-02~~ TA06-02-01—Disclosure—~~The registrant shall include a description of fines~~ briefly describe the nature, context, and settlements and any corrective actions ~~implemented in response to events taken as a result of the losses.~~

<sup>21</sup> Note to **SV0102-08**—Disclosure shall include a description of the methodology employed.

# Professional Integrity

## Description

The business model of professional and commercial services companies is dependent on the development of trust and loyalty with clients. To ensure long-term, mutually beneficial relationships, companies need to provide services that satisfy the highest professional standards of the industry. Professional integrity is an important governance issue in this industry, as the collective organization of professionals inside a single organization can make the detection and prevention of conflicts of interest, bias, or negligence more challenging. Therefore, companies in this industry should take measures to avoid conflicts of interest and negligence, including training employees adequately, and should provide advice and distribute data free from bias and error. These measures are important both for strengthening a company's license to operate as well as for attracting and retaining clients.

## Accounting Metrics

### SV0102-01. Description of management approach to assuring professional integrity and duty of care

.01 The registrant shall discuss its policies to assure professional integrity, where:

- The scope of disclosure includes aspects of professional integrity relating to conflict of interest, accuracy of data, and corruption.

.02 Assurance of professional integrity may include, but is not limited to, policies, training, and implementation of codes of ethics as well as investigations, enforcement, and disciplinary procedures relating to:

- Avoidance of conflicts of interest, including mitigation and transparency of potential or perceived conflicts
- Oversight of advisory services and recommendations
- Maintenance and reporting of accurate data
- Protection of confidential business information, including accuracy, retention, and destruction of business records and documents
- Prevention of billing fraud
- Avoidance of corruption, including identification of suspicious activities and whistleblower protection programs
- Privacy guidelines and security clearances for gaining access to sensitive and classified data
- Employee training on relevant regulations
- Mechanisms for internal reporting about violations or concerns regarding business ethics or compliance
- Processes for internal investigations for malpractice or negligence

- Disciplinary actions for violations of professional integrity policies

.03 The registrant may choose to discuss compliance with industry best practices, including codes of conduct and codes of ethics, as a measure of its management approach to ensuring quality of work and professional integrity. Examples include, but are not limited to, the CFP Board's Code of Ethics & Professional Responsibility and the Institute of Management Consultants' Code of Ethics.

**SV0102TA06-02- Amount-01. Total amount of losses as a result of legal and regulatory fines and settlements/proceedings associated with professional integrity or duty of care**

- .04 The registrant shall disclose the total amount of losses in U.S. dollars ~~(excluding legal fees) of all fines or settlements it incurred as a result of legal proceedings~~ associated with ~~professional integrity or duty of care, including, but not limited to, those related to negligence and malpractice, breach of contract, fraud, corruption, and bribery.~~
- .05 ~~Disclosure~~The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.
- .06 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgment, judgments or settlements, or), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken (restitution) brought by any entity (government, businesses governmental, business, or individuals individual).
- .07 The losses shall exclude legal fees incurred by the registrant.
- .08 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of industry regulations promulgated by U.S. and foreign regulatory authorities. Such regulatory authorities may include, but are not limited to:
- The Consumer Financial Protection Bureau (CFPB)
  - The U.S. Department of Justice (DOJ)
  - The International Organization of Securities Commissions (IOSCO)
  - The European Securities and Markets Authority (ESMA)

Note to **SV0102TA06-02-01**

- .11 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, or non-prosecution agreement) and context (e.g., negligence) ~~of fines and settlements, etc.) of all losses as a result of legal proceedings.~~
- .12 The registrant shall describe any corrective actions it has implemented as a result of ~~each incident~~the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

# Data Security

## Description

Companies in every segment of the Professional & Commercial Services industry are entrusted with customer data. Employment and temp agencies as well as data providers and consulting companies store, process, and transmit increasing amounts of sensitive personal data about employees, clients, and candidates. Clients of financial and non-financial services providers are likely to handle sensitive information of individuals. Personal data may be shared with professional services companies, and as third-party users, they need to ensure that strict policies and procedures are in place to prevent data breaches. Compromise of sensitive customer information through cybersecurity breaches, other malicious activities, or employee negligence may have a significant social externality. Data breaches may compromise perception of the effectiveness of a service provider's security measures, which could result in reputational damage and the inability to attract and retain clients. As hackers get more sophisticated, companies' security systems will also need to continuously evolve.

## Accounting Metrics

### SV0102-03. Discussion of management approach to identifying and addressing data security risks

.13 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, or modification of information, and/or denial of service.
- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.14 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, through operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.15 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.16 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the SEC's [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

.17 At a minimum, this includes when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

- .18 All disclosure shall be sufficient such that it is specific to the risks the registrant faces but disclosure itself would not compromise the registrant’s ability to maintain data privacy and security.
- .19 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security such as:
- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems— Requirements
  - “Framework for Improving Critical Infrastructure Cybersecurity, Version 1.0,” February 12, 2014, National Institute of Standards and Technology (NIST)

**SV0102-04. Discussion of policies and practices relating to collection, usage, and retention of customer information**

- .20 The registrant shall describe the nature, scope, and implementation of its policies and practices related to customer privacy, with a specific focus on how it addresses the collection, usage, and retention of customer information, including demographic data, confidential business information, and personally identifiable information, where:
- Customer information includes information that pertains to a customer’s attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, personally identifiable information, or confidential business information.
  - Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
  - Confidential Business Information (CBI) is defined as information that concerns or relates to the trade secrets, processes, operations, identification of customers, inventories, or other information of commercial value, the disclosure of which is likely to cause substantial harm to the competitive position of the person, firm, partnership, or corporation from which the information was obtained.<sup>22</sup> The term “confidential business information” includes “proprietary information” within the meaning of section 777(b) of the Tariff Act of 1930 ([19 U.S.C. 1677f\(b\)](#)).
  - Personally Identifiable Information (PII) is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual’s identity, such as name, Social Security number, date and place of birth, mother’s maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>23</sup>

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<sup>22</sup> 19 CFR 201.6

<sup>23</sup> *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

.21 The registrant shall describe the information “lifecycle” (i.e., collection, use, retention, processing, disclosure, and destruction of information) and how information-handling practices at each stage may affect individuals’ privacy.

- With respect to data collection, it may be relevant for the registrant to discuss which data or types of data are collected without the consent of an individual, which require opt-in consent, and which require opt-out action from the individual.
- With respect to usage of data, it may be relevant for the registrant to discuss which data or types of data are used by the registrant internally, and under which circumstances the registrant shares, sells, rents, or otherwise distributes data or information to third parties.
- With respect to retention, it may be relevant for the registrant to discuss which data or types of data it retains, the length of time of retention, and what practices are used to ensure that data is stored securely.

The registrant shall discuss the degree to which its policies and practices address similar issues as outlined in the [OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002 \(M-03-22\)](#), including use of Privacy Impact Assessments (PIAs), where:

- A PIA is an analysis of how information is handled that ensures handling conforms to applicable legal, regulatory, and policy requirements regarding privacy; determines the risks and effects of collecting, maintaining, and disseminating information in identifiable form in an electronic information system; and examines and evaluates protections and alternative processes for handling information in order to mitigate potential privacy risks.
- As outlined by OMB M-03-22, PIAs must analyze and describe: (a) what information is to be collected, (b) why the information is being collected, (c) the intended use of the information, (d) with whom the information will be shared, (e) what opportunities individuals have to decline to provide information (i.e., where providing information is voluntary) or to consent to particular uses of the information (other than required or authorized uses), including how individuals can grant consent, and (f) how the information will be secured, among other government-specific requirements.

**SV0102-05-TA06-03-01. Number of data security breaches and, percentage involving customers’ confidential business information (CBI) or personally identifiable information (PII), number of customers affected**

.22 The registrant shall calculate and disclose the total number of data security breaches, which identified during the fiscal year, where:-

- Data security breaches are defined as instances of internal and/or external unauthorized acquisition, access, use, or disclosure of protected customer information.
- The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant’s business processes deviating from its expected outcomes for confidentiality, and integrity, and availability.

~~22.23~~ Disclosure shall be additional but complementary to the SEC's CF Disclosure Guidance: Topic No. 2, [Cybersecurity](#).

~~The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.~~

- ~~• The scope of disclosure shall exclude disruptions of service due to equipment failures.~~
- At a minimum, instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represent a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

~~23.24~~ The registrant shall disclose the percentage of data security breaches in which customers' confidential business information (CBI) or personally identifiable information (PII) was breached, where:

- ~~Confidential Business Information (CBI)~~ is defined as information that concerns or relates to the trade secrets, processes, operations, identification of customers, inventories, or other information of commercial value, the disclosure of which is likely to cause substantial harm to the competitive position of the person, firm, partnership, or corporation from which the information was obtained.<sup>24</sup> -The term "confidential business information" includes "proprietary information" within the meaning of section 777(b) of the Tariff Act of 1930 ([19 U.S.C. 1677f\(b\)](#)).
- ~~Personally Identifiable Information (PII)~~ is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an ~~individual's~~ individual's identity, such as name, Social Security number, date and place of birth, ~~mother's~~ mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>25</sup>
- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- ~~• Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.~~
- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise ~~such~~the investigation.

~~Disclosure shall be additional but complementary to the SEC's.~~

<sup>24</sup> 19 CFR 201.6

<sup>25</sup> Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information, GAO Report 08-536, May 2008.

- ~~At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant’s results of operations, liquidity, or financial condition, or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).~~

The registrant shall disclose the total number of unique customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

- Accounts which the registrant cannot verify as belonging to the same user shall be disclosed separately.

Note to ~~SV0102-05~~**TA06-03-01**

~~24.25~~ The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

~~25.26~~ All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant’s ability to maintain data privacy and security.

27 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

# Workforce Diversity & Engagement

## Description

Developing a broad base of employees that are valued, respected, and supported throughout an organization is essential for the long-term growth prospects of professional and commercial services companies. Human capital is the major source of revenue generation, contributing knowledge, talent, advice, and various technical skills. While financial and non-financial information services companies may have high diversity among lower-level employees, there may still be a lack of diversity among senior management. Enhancing workforce diversity, particularly among management positions, is likely to be an essential component of attracting and developing the best talent. However, an increase in diversity in terms of numbers alone may not improve a company's performance, but should be combined with improved employee engagement, fair treatment, and equal levels of pay and advancement opportunities for all workers. This may be necessary in the attempt to promote increased productivity and performance through all levels of the company.

## Accounting Metrics

**SV0102-06. Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others:**

~~-26.28~~ The registrant should summarize and disclose employee representation by employee category in the following table format:

| EMPLOYEE CATEGORY       | GENDER |        |     | RACE AND ETHNICITY |                           |                    |       |         |     |
|-------------------------|--------|--------|-----|--------------------|---------------------------|--------------------|-------|---------|-----|
|                         | Male   | Female | NA* | White              | Black or African American | Hispanic or Latino | Asian | Other** | NA* |
| Executives/Sr. Managers |        |        |     |                    |                           |                    |       |         |     |
| All Others              |        |        |     |                    |                           |                    |       |         |     |

\*NA = not available/not disclosed

\*\*Other includes American Indian or Alaska Native, Native Hawaiian or ~~Other~~ Pacific Islander, and "Two or More Races" classifications

~~-27.29~~ The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All Others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).

- For staffing agencies, the scope of disclosure for All Others shall additionally be broken down by (a) non-contingent staff and (b) contingent workforce (i.e., those workers who are placed at client sites, but who remain employees of the staffing agencies).

~~-28.30~~ The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.

~~29.31~~ The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "Two or More Races" classifications), or not disclosed/available.

~~30.32~~ Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

~~31.33~~ Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

#### **SV0102-07. (1) Voluntary and (2) involuntary turnover rate**

~~32.34~~ The registrant shall disclose employee turnover as a percentage, where:

- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.

~~33.35~~ The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignation, retirement, etc.) during the fiscal year, divided by the total number of unique workers employed during the fiscal year.

~~34.36~~ The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year, divided by the number of unique workers employed during the fiscal year.

~~35.37~~ For staffing agencies, the scope of disclosure excludes the contingent workforce (i.e., those workers who are placed at client sites, but who remain employees of the staffing agencies).

#### **SV0102-08. Employee engagement as a percentage**

~~36.38~~ The registrant shall disclose employee engagement as a percentage (i.e., the percentage of employees deemed "actively engaged" as opposed to "not engaged," "passive," or "actively disengaged"). If engagement is measured as an index (e.g., strength of employee agreement with a survey statement), it shall be converted into a percentage for this disclosure.

~~37.39~~ The disclosure shall be calculated based on the results of an employee-engagement survey or research study conducted by the registrant, an external entity contracted to perform such a study by the registrant, or an independent third party.

#### **Note to SV0102-08**

~~38.40~~ The registrant shall briefly describe the:

- Source of its survey (e.g., third-party survey or registrant's own),

- Methodology used to calculate the percentage (e.g., a simple average of individual employees' survey responses in which a numerical value is assigned to the strength of agreement or disagreement with a survey statement), and
- Summary of questions or statements included in the survey or study (e.g., those related to goal-setting, support to achieve goals, training and development, work processes, and commitment to the organization).

~~39.41~~ Where the survey methodology has changed compared to previous reporting years, the registrant shall indicate results based on both the old and new methods for the year in which the change is made.

~~40.42~~ If results are limited to a subset of employees, the registrant shall include the percentage of employees included in the study or survey and the representativeness of the sample.

~~41.43~~ The registrant may choose to disclose results of other survey findings such as the percentage of employees who are proud of their work/where they work, are inspired by their work/co-workers, and are aligned with corporate strategy and goals, etc.



SERVICES SECTOR

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# **HOTELS & LODGING\***

## **Sustainability Accounting Standard**

**PROPOSED CHANGES TO PROVISIONAL STANDARDS**

**EXPOSURE DRAFT**

**REDLINE OF STANDARD FOR PUBLIC COMMENT**

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0201

# HOTELS & LODGING

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (https://www.sasb.org/public-comment).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Hotels & Lodging industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

The Hotels & Lodging industry is composed of companies that provide short-term accommodation, including hotels, motels, and inns, and is dominated by large hotel chains. It is a competitive industry in which customers base purchase decisions on a wide range of factors including quality and consistency of services, availability of locations both domestically and internationally, price, and loyalty program offers. While most major companies are U.S.-based, a handful are international. Businesses are often structured in one or more of the following ways: direct revenue from hotel services, including room rental and food and beverage sales; management and franchise services with fee revenue from property management; and vacation residential ownership with revenue from sales of residential units.

Note: Select companies in the Hotels & Lodging industry are also engaged in activities of the Restaurants industry. SASB standards for such activities are outlined in the Restaurants industry standards. For the purposes of this standard, it is assumed that Hotels & Lodging companies do not provide food and beverage services, and therefore issues around food safety, waste, and sourcing, which may be material for companies in the industry that offer food and beverages, are not covered by this standard.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Hotels & Lodging industry, the SASB has identified the following sustainability disclosure topics:

- Energy & Water Management
- Ecosystem Protection & Climate Adaptation

<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

- ~~Fair~~ Labor Practices

## 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.<sup>9</sup>

## 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K “any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.”<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A “shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition.”<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management’s Discussion and Analysis of Financial Condition and Results of Operations: “We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing.”

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

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<sup>15</sup> The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC  | CATEGORY     | UNIT OF MEASURE                 | CODE     |
|--|--------------|---------------------------------|----------|
| Number of available room-nights  | Quantitative | Number                          | SV0201-A |
| Average occupancy rate <sup>19</sup>   | Quantitative | Rate                            | SV0201-B |
| Total area of lodging facilities <sup>20</sup>   | Quantitative | Square meters (m <sup>2</sup> ) | SV0201-C |
| Number of lodging facilities and the percentage that are:<br>(1) managed, (2) owned and leased, (3) franchised | Quantitative | Number, Percentage (%)          | SV0201-D |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to **SV0201-B**—Measured as the number of occupied room-nights divided by the number of available room-nights across all properties.

<sup>20</sup> Note to **SV0201-C**—The scope includes any facilities that were under the control of the registrant (owned, operated, leased, or franchised) during any portion of the fiscal year.

systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>21</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

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<sup>21</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

# Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC                                     | ACCOUNTING METRIC  | CATEGORY                       | UNIT OF MEASURE                   | CODE                                      |
|---|--|--------------------------------|-----------------------------------|---|
| Energy & Water Management                 | Total energy consumed, percentage grid electricity, percentage renewable   | Quantitative                   | Gigajoules (GJ), Percentage (%)   | SV0201-01                                 |
|   | Total water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress  | Quantitative                   | Cubic meters (m³), Percentage (%) | SV0201-02                                 |
| Ecosystem Protection & Climate Adaptation | Number of lodging facilities located in FEMA Special Flood Hazard Areas or foreign equivalent  | Quantitative                   | Number                            | SV0201-03                                 |
|   | Number of lodging facilities in or near areas of protected conservation status or endangered species habitat   | Quantitative                   | Number                            | SV0201-04                                 |
|   | Description of environmental management policies and practices to preserve ecosystem services  | Discussion and Analysis        | n/a                               | SV0201-05                                 |
| Fair Labor Practices                      | (1) Voluntary and (2) involuntary employee turnover rate for hotel employees   | Quantitative                   | Percentage (%)                    | SV0201-06                                 |
|   | <del>Amount</del> <u>Total amount of losses as a result of legal and regulatory fines and settlements proceedings</u> associated with labor law violations <sup>22</sup> | Quantitative                   | U.S. Dollars (\$)                 | <del>SV0201-07</del><br><u>TA06-08-01</u> |
|   | <del>(1) Average hourly wage for hotel employees, by region; and (2) percentage of hotel lodging facility employees earning minimum wage, by region</del>                | Quantitative                   | U.S. Dollars (\$), Percentage (%) | <del>SV0201-08</del><br><u>TA06-06-01</u> |
|   | <u>Discussion of policies and programs to prevent worker harassment</u>  | <u>Discussion and Analysis</u> | <u>n/a</u>                        | <u>TA06-08-02</u>                         |

<sup>22</sup> Note to ~~SV0201-07~~—Disclosure TA06-08-01—The registrant shall include a description of fines briefly describe the nature, context, and settlements and any corrective actions implemented in response to events taken as a result of the losses.

# Energy & Water Management

## Description

Hotel buildings require a relatively large amount of energy and water resources to operate, which represent a significant portion of hotel operating expenses. The majority of the industry's electricity usage is commercially purchased. This purchased electricity indirectly leads to the release of greenhouse gas (GHG) emissions, which is a large contributor to climate change. The extensive use of water, particularly in water-stressed regions, may lead to supply constraints that make large hotels difficult to operate and could increase the costs of water resources. Companies in the industry are implementing energy and water management best practices in order to reduce operating expenses and environmental impacts and improve their reputations with guests, who are increasingly concerned about environmental sustainability.

## Accounting Metrics

### **SV0201-01. Total energy consumed, percentage grid electricity, percentage renewable**

- .01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.
- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
  - The scope includes only energy consumed by entities owned or controlled by the organization.
  - The scope includes energy from all sources including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- .02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).
- .03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.
- .04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.
- .05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.
- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.<sup>23</sup>

.06 Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

- For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:
  - Energy from hydro sources that are certified by the Low Impact Hydropower Institute.
  - Energy from biomass sources is limited to sources that are considered “eligible renewables” according to the Green-e Energy National Standard Version 2.4 or that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

## **SV0201-02. Total water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress**

.08 The registrant shall disclose the amount of water (in cubic meters) that was withdrawn from fresh water sources for use in operations.

- Fresh water may be defined according to the local statutes and regulations where the registrant operates. Where there is no regulatory definition, fresh water shall be considered to be water that has a total dissolved solids (TDS) concentration of less than 1000 mg/l per the Water Quality Association [definition](#).
- Water obtained from a water utility can be assumed to meet the definition of fresh water.

.09 The registrant shall disclose the total amount of water by volume (in cubic meters) that was recycled during the fiscal year. This figure shall include the amount recycled in closed-loop and open-loop systems.

- Any volume of water reused multiple times shall be counted as recycled each time it is recycled and reused.

.10 Using the World Resources Institute’s (WRI) Water Risk Atlas tool, Aqueduct (publicly available online [here](#)), the registrant shall analyze all of its operations for water risks and identify facilities that are in a location with High

<sup>23</sup> The SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

(40–80%) or Extremely High (>80%) Baseline Water Stress. Water withdrawn in locations with High or Extremely High Baseline Water Stress shall be indicated as a percentage of the total water withdrawn.

# Ecosystem Protection & Climate Adaptation

## Description

Hotels operating near environmentally sensitive areas and in coastal regions are exposed to inclement weather and flooding that can impact hotel operations. Additionally, the influx of tourists and the waste generated by hotels can present risks to sensitive ecosystems such as coral reefs and nature preserves. Poor environmental protection practices may preclude hotels from obtaining new construction licenses in these sensitive areas and could, in the long term, diminish natural attractions for tourists that help to generate revenue for communities and hotels. Additionally, inclement weather may damage property and disrupt operations, thereby reducing assets and revenues. Hotel operators will have to adapt to shifting climate trends such as rising sea levels, hurricanes, and flooding in order to maintain revenue-generating properties and local communities that rely on tourism.

## Accounting Metrics

### **SV0201-03. Number of lodging facilities located in FEMA Special Flood Hazard Areas or foreign equivalent**

.11 The registrant shall disclose the number of its lodging facilities that are located in special flood hazard areas, where:

- FEMA Special Flood Hazard Areas (SFHA) are defined as land areas covered by the floodwaters of the base flood on National Flood Insurance Program (NFIP) maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced, and the area where the mandatory purchase of flood insurance applies. The SFHA includes Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V. Examples of Special Flood Hazard Areas include coastal floodplains, floodplains along major rivers, and areas subject to flooding from ponding in low-lying areas.<sup>24</sup>
- The scope of disclosure includes U.S.-based facilities that are designated by FEMA as SFHA, as well as non-U.S.-based facilities.
- For non-U.S.-based facilities that fall outside of the scope of FEMA, the foreign equivalent is the area that will be inundated by the flood event having a one-percent chance of being equaled or exceeded in any given year (i.e., the 100-year floodplain).<sup>25</sup>

### **SV0201-04. Number of lodging facilities in or near areas of protected conservation status or endangered species habitat**

.12 The registrant shall disclose the number of lodging facilities operated, owned, leased, or franchised in sites with protected conservation status, or areas of endangered species habitat, where:

- Lodging facilities are considered to be in areas of protected conservation status if they are located within:

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<sup>24</sup> FEMA [National Flood Insurance Program Reform - Frequently Asked Questions](#)

<sup>25</sup> FEMA [National Flood Insurance Program: Flood Hazard Mapping](#)

- International Union for Conservation of Nature (IUCN) Protected Areas (categories I-VI).
- Ramsar Wetlands of International Importance.
- UNESCO World Heritage Sites.
- Biosphere Reserves recognized within the framework of UNESCO's Man and Biosphere (MAB) Programme.
- Natura 2000 sites.
- Sites that meet the IUCN's definition of a protected area: "A protected area is a clearly defined geographical space, recognized, dedicated, and managed through legal or other effective means to achieve the long term conservation of nature with associated ecosystem services and cultural values."<sup>26</sup>
- These sites may be listed in the World Database of Protected Areas (WDPA) and mapped on ProtectedPlanet.net.

.13 Lodging facilities are considered to be in or near endangered species habitat if they are in or near areas where species on the IUCN Red List of Threatened Species that are classified as Critically Endangered (CR) or Endangered (EN) are extant.

- A species is considered extant in an area if it is a resident, present during breeding or non-breeding seasons, or if it makes use of the area for passage.
- For the purposes of this disclosure, "near" is defined as within five kilometers (km) of the boundary of an area of protected conservation status or an endangered species habitat.

.14 The registrant may choose to separately identify properties in areas with additional ecological, biodiversity, or conservation designations such as those listed by the [A-Z Guide of Areas of Biodiversity Importance](#) prepared by the United Nations Environment Programme's World Conservation Monitoring Centre (UNEP-WCMC).

.15 The registrant may choose to provide discussion around lodging facilities that are located in protected areas or endangered species habitat but that present low risk to biodiversity or ecosystem services. The registrant may choose to provide similar discussion for lodging facilities located in areas with no official designation of high biodiversity value but that present high biodiversity or ecosystem services risks.

#### **SV0201-05. Description of environmental management policies and practices to preserve ecosystem services**

.16 The registrant shall provide a brief description of its environmental management plan(s) and its policies and practices relating to preservation of ecosystem services, where:

- Ecosystem service is defined as a service people obtain from the environment, based on the transformation of natural assets (soil, plants, animals, air, and water) into things that are directly valued. Ecosystem services can be viewed as (a) provisioning, which refers to use for resources such as food and water; (b) regulating, which refers to uses such as flood and disease control; (c) cultural,

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<sup>26</sup> N. Dudley, (ed.), *Guidelines for Applying Protected Areas Management Categories* (Gland, Switzerland: IUCN, 2008), pp. 8-9.

which refers to uses that are spiritual, recreational, or provide cultural benefits; or (d) supporting, which refers to those systems that maintain the conditions for life on Earth.<sup>27</sup>

- The scope of disclosure includes, where relevant:
  - Lifecycle stages to which the plan(s) apply, such as: design, construction, commissioning, operation, decommissioning, closure, or, where applicable, post-closure.
  - The topics addressed by the plan(s), including: ~~(i) Policies~~ to reduce impacts on the ecosystems, such as ecological and biodiversity impacts, waste generation, noise impacts, emissions to air, discharges to water, natural resource consumption, and tourism impacts; ~~and (ii) Adaptation~~ measures to minimize impact from changes in ecosystem services as may occur with climate change or other external pressures, such as changes in legal protections for sensitive areas or limitations on resource consumption.
  - The underlying references for its plan(s), including whether they are codes, guidelines, standards, or regulations and whether they were developed by the registrant, an industry organization, a third-party organization (e.g., a non-governmental organization), a governmental agency, or some combination of these groups.

.17 Where applicable and relevant, the registrant shall describe specific policies and practices that apply to areas with protected conservation status and/or areas of critical habitat, which are [defined](#) by the International Finance Corporation (IFC) as:

- Areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

.18 If the management policies and practices do not apply to all of the registrant's sites or operations, it shall indicate the percentage of sites to which they were applied.

.19 The registrant shall disclose the degree to which its policies and practices are aligned with IFC [Performance Standards on Environmental and Social Sustainability](#), January 1, 2012, specifically including:

- Performance Standard 1—Assessment and Management of Environmental and Social Risks and Impacts.
- Performance Standard 3—Resource Efficiency and Pollution Prevention.
- Performance Standard 6—Biodiversity Conservation and Sustainable Management of Living Natural Resources.

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<sup>27</sup> <http://www.iucn.org/lyb/about/> <https://www.iucn.org/commissions/commission-ecosystem-management/our-work/cems-thematic-groups/ecosystem-services>

**Additional** ~~relevant references may include:~~ **References**

[Global Sustainable Tourism Criteria for Hotels and Tour Operators](#) (2008), developed by Rainforest Alliance, the United Nations Environment Programme (UNEP), the United Nations Foundation, and the United Nations World Tourism Organization (UNWTO).

[Convention on Biological Diversity Guidelines on Biodiversity and Tourism](#) (2004), published by the Secretariat of the Convention on Biological Diversity.

*Sustainable Hotel Siting, Design and Construction* (2005) published by the Prince of Wales International Business Leaders Forum and Conservation International.

[Indicators of Sustainable Development for Tourism Destinations: A Guidebook](#) (2004) published by the United Nations World Tourism Organisation.

# Fair Labor Practices

## Description

The Hotels & Lodging industry is highly reliant on labor to operate large facilities. An engaged workforce that is able to provide guests with a pleasurable experience is a key value driver for hotel companies. The industry is characterized by low union participation, low wages, seasonality, shift and night work, and low skill requirements. The majority of workers are women and minorities, which raises the risk of unfair labor and discriminatory practices. These characteristics can lead to low job satisfaction that results in high turnover and potential lawsuits, which contribute to increased expenses for hotel operators. Hotels actively working to prevent discriminatory practices and ensure fair wages can help to improve worker satisfaction and reduce turnover.

## Accounting Metrics

### SV0201-06. (1) Voluntary and (2) involuntary employee turnover rate for hotel employees

- .21 The registrant shall disclose employee turnover for hotel employees as a percentage, where:
- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.
- .22 The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignation, retirement, etc.) during the fiscal year, divided by the total number of employees during the fiscal year.
- .23 The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year, divided by the number of employees during the fiscal year.

### ~~SV0201-07. Amount~~TA06-08-01. Total amount of losses as a result of legal and regulatory fines and settlementsproceedings associated with labor law violations

- .24 The registrant shall disclose the total amount ~~(excluding of losses in U.S. dollars it incurred as a result of legal fees) of all fines and settlementsproceedings~~ associated with fair-labor ~~practices, including, but not limited to, those related to law~~ violations ~~of the Fair Labor Standards Act~~, such as those relating to wages, work hours, overtime, and meal and rest breaks. -
- ~~.25 Disclosure~~The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.
- ~~.25.26~~ The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgment,judgments or settlements,or), regulatory proceedings (e.g., penalties), disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken, restitution) brought by any entity (government, businessesgovernmental, business, or individualsindividual).
- .27 The losses shall exclude legal fees incurred by the registrant.

.28 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of industry regulations promulgated by U.S. and foreign regulatory authorities. Such regulatory authorities may include, but are not limited to:

- The U.S. Department of Labor (DOL)
- The United Kingdom Health and Safety Executive (HSE)
- The People's Republic of China Ministry of Human Resources and Social Security (MOHRSS)

Note to **SV0201-07TA06-08-01**

~~-.26.29~~ The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper working conditions, unfair compensation, etc.) ~~of fines and settlements of all losses as a result of legal proceedings.~~

~~-.27.30~~ The registrant shall describe any corrective actions it has implemented as a result of ~~each incident~~ the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

**SV0201-08.TA06-06-01. (1) Average hourly wage for hotel employees, by region; and (2) percentage of hotel lodging facility employees earning minimum wage, by region**

~~-.28.31~~ The registrant shall disclose the average hourly wage, in U.S. dollars, for ~~hotel~~ lodging facility employees for each geographic region for which it conducts segment financial reporting,<sup>28</sup> where:

- Hotel lodging facility employees are defined as non-manager employees earning an hourly wage.
- The scope of disclosure includes employees of company-owned and franchise locations.
- The scope of disclosure excludes salaried and corporate employees.
- The average hourly wage is calculated as the total hotel lodging facility employee wages, including tips, for the fiscal year, divided by the number of hours worked by hotel lodging facility employees during the fiscal year.

~~-.29.32~~ The registrant shall disclose the percentage of hotel lodging facility employees earning minimum wage before tips, where:

- Minimum wage is defined as the local or prevailing minimum wage applicable for each worker.
- For countries or regions with no prevailing minimum wage requirement, the 10th percentile hourly wage, in U.S. dollars, of all wage earners in that country or region shall be used for this disclosure, including in the calculation of the percentage of staff earning minimum wage as well as the calculation of the average prevailing minimum wage.

<sup>28</sup> As determined by FASB Accounting Standards Codification Topic 280, *Segment Reporting*.

~~30.33~~ The registrant should disclose the average prevailing minimum wage, weighted on an hours-worked basis, for each geographic region for which it conducts segment financial reporting.

~~34.34~~ The registrant may choose to discuss its sensitivity to future adjustments in minimum wage.

- The discussion should include what percentage of its employees would be affected by an increase in the federal minimum wage.

#### **TA06-08-02. Discussion of policies and programs to prevent worker harassment**

.35 The registrant shall discuss its policies and programs for detecting and preventing worker harassment, where:

- Worker harassment is defined as employment discrimination that creates a work environment that a reasonable person would consider intimidating, hostile, or abusive.<sup>29</sup>
- Relevant policies to discuss include, but are not limited to, those related to reporting channels and whistleblower protections.
- Relevant programs include, but are not limited to, employee training, use of panic buttons or other technology, maintaining lists of guests accused of harassing employees, investigations and audits, and partnerships and agreements with labor unions and employee representatives.

.36 The discussion shall include how policies and programs apply to business partners, such as franchisees and joint venture partners.

.37 The discussion shall include outcomes and impacts of these policies and practices, such as those related to worker efficiency and retention and indirect impacts on brand reputation and revenue.

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<sup>29</sup> Definition adapted from the U.S. Equal Opportunity Commission (EEOC)'s guidance on harassment.



SERVICES SECTOR

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# **CASINOS & GAMING\***

## **Sustainability Accounting Standard**

**PROPOSED CHANGES TO PROVISIONAL STANDARDS**

**EXPOSURE DRAFT**

**REDLINE OF STANDARD FOR PUBLIC COMMENT**

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0202

# CASINOS & GAMING

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Casinos & Gaming industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

Publicly held Casinos & Gaming companies operate gambling facilities or platforms, including brick-and-mortar casinos, riverboat casinos, online gambling websites, and racetracks. The broader industry is dominated by privately held Native American casinos, which significantly outnumber publicly held casinos. Native American casinos are generally owned and operated by tribes, but sometimes can be managed by commercial casino operators or other management companies. The industry is characterized by high levels of regulatory scrutiny, which represents the main barrier to entry for new players. Fewer than half of states have legalized commercial casinos in some form.

Note: Select companies in the Casinos & Gaming industry are also engaged in activities of the Hotels & Lodging and/or Restaurants industries. SASB standards for such activities are outlined in the Hotels & Lodging and Restaurants standards. For the purposes of this standard, it is assumed that Casinos & Gaming companies are engaged solely in operating gambling facilities and providing online gaming services, and therefore issues around such as water management in lodging facilities and food safety, which may be material for companies in the industry that have significant hotel and restaurant operations, are not covered by this standard.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Casinos & Gaming industry, the SASB has identified the following sustainability disclosure topics:

- Energy Management
- Responsible Gaming

<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

- Smoke-free Casinos
- Internal Controls on Money Laundering
- Political Spending

## 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.<sup>9</sup>

## 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

## 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the

<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICST<sup>™</sup>. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

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<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

<sup>15</sup> The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

## Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC  | CATEGORY     | UNIT OF MEASURE                 | CODE                                    |
|--|--------------|---------------------------------|---|
| Number of tables   | Quantitative | Number                          | SV0202-A                                |
| Number of slots  | Quantitative | Number                          | SV0202-B                                |
| Number of <u>active</u> online gaming <del>accounts</del> <u>customers</u> <sup>19</sup> | Quantitative | Number                          | <del>SV0202-C</del><br><u>TA06-10-A</u> |
| Total area of gaming floor   | Quantitative | Square meters (m <sup>2</sup> ) | SV0202-D                                |

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to TA06-10-A—The number of active customers shall be considered as the number for which there was at least one financial transaction (bet, deposit, withdraw) with real currency within the reporting period, where real currency is defined by the U.S. Financial Crimes Enforcement Network.

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>20</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain

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<sup>20</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

steps. These include, among other things, identifying the disclosure as “forward-looking,” and accompanying such disclosure with “meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.”

## Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC  | ACCOUNTING METRIC  | CATEGORY                | UNIT OF MEASURE                     | CODE                 |
|--|--|-------------------------|-------------------------------------|----------------------|
| <b>Energy Management</b>                     | Total energy consumed, percentage grid electricity, percentage renewable   | Quantitative            | Gigajoules (GJ), Percentage (%)     | SV0202-01            |
| <b>Responsible Gaming</b>                    | Percentage of gaming facilities implementing the Responsible Gambling Index  | Quantitative            | Percentage (%) by revenue           | SV0202-02            |
|  | Percentage of online gaming operations implementing National Council on Problem Gambling's Internet Responsible Gambling Standards           | Quantitative            | Percentage (%) by revenue           | SV0202-03            |
| <b>Smoke-free Casinos</b>                    | Percentage of gaming floor where smoking is allowed  | Quantitative            | Percentage (%) of gaming floor area | SV0202-04            |
|  | Percentage of gaming staff that work in areas where smoking is allowed   | Quantitative            | Percentage (%) of man-hours         | SV0202-05            |
| <b>Internal Controls on Money Laundering</b> | Description of anti-money laundering policies and practices  | Discussion and Analysis | n/a                                 | SV0202-06            |
|  | Amount of legal and regulatory fines and settlements associated with money laundering <sup>21</sup>  | Quantitative            | U.S. Dollars (\$)                   | SV0202-07            |
| <b>Political Spending</b>                    | <del>Amount of political campaign spending, lobbying expenditures, and contributions to tax-exempt groups including trade associations</del> | <del>Quantitative</del> | <del>U.S. Dollars (\$)</del>        | <del>SV0202-08</del> |
|  | Five largest political, lobbying, or tax-exempt group expenditures   | Quantitative            | U.S. Dollars (\$),                  | SV0202-09            |

<sup>21</sup> Note to **SV0202-07**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

# Energy Management

## Description

With many facilities open 24 hours a day, the Casinos & Gaming industry requires large amounts of energy to operate. Casino facilities often have few windows and therefore rely on the building's mechanical systems for heating, ventilation, and air-conditioning (HVAC) and lighting. Fossil fuel-based energy production and consumption contribute to significant environmental impacts, including climate change and pollution, and have the potential to indirectly yet materially impact the results of operation of casino operators. It is becoming increasingly important for companies relying on electricity consumption for their operations to manage overall energy efficiency, reliance on different types of energy and associated risks, and access to alternative energy sources.

## Accounting Metrics

### SV0202-01. Total energy consumed, percentage grid electricity, percentage renewable

- .01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.
- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
  - The scope includes only energy consumed by entities owned or controlled by the organization.
  - The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- .02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).
- .03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.
- .04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.
- .05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.
- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
  - For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.<sup>22</sup>

.06 Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

- For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:
  - Energy from hydro sources that are certified by the Low Impact Hydropower Institute.
  - Energy from biomass sources is limited to sources that are considered “eligible renewables” according to the Green-e Energy National Standard Version 2.4 or that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

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<sup>22</sup> The SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

# Responsible Gaming

## Description

Even though the main purpose of visiting a casino or engaging in online gaming is entertainment, the gaming industry has earned a negative perception that is mostly related to pathological gambling. Nearly one percent of U.S. adults meet the criteria for pathological gambling, which is a progressive addiction characterized by increasing preoccupation with gambling. Another two to three percent are problem gamblers, i.e., they meet one or more (but not all) of the criteria for pathological gambling. Pathological and problem gamblers generate disproportionately greater revenue for casino operators. While casinos do not cause problem gambling, they provide opportunities to gamble and so can exacerbate the issue. Responsible gambling encompasses industry best practices to mitigate impacts of problem gambling and other social impacts, thus mitigating risk to companies' reputations as may result from highly publicized cases involving violations of self-exclusion lists, irresponsible advertising, gambling by minors, or instances where the company has otherwise enabled gambling problems.

## Accounting Metrics

### SV0202-02. Percentage of gaming facilities implementing the Responsible Gambling Index

.08 The registrant shall disclose the percentage of its gaming facilities (by revenue) that implement Responsible Gambling Index (RG Index) criteria where:

- Gaming facility is defined as any registrant-owned establishment utilized primarily for the purposes of gaming and where gaming equipment or supplies are operated for the purposes of accruing business revenue, excluding online gaming operations.<sup>23</sup>
- [RG Index](#) criteria are those developed by the Responsible Gambling Council (RGC) Centre for the Advancement of Best Practices and can be found [here](#).

.09 The percentage shall reflect the revenue-weighted implementation of the RG Index criteria across gaming facilities, and shall be calculated as follows:

- The registrant shall calculate the percentage of RG Index criteria achieved for each gaming facility.
- This percentage shall be calculated as the number of RG Index criteria for which the facility is in compliance divided by the total number of criteria.
- For the purposes of this disclosure, the total number of criteria is 47 under the eight core standards:
  - Responsible gambling policies (five criteria),
  - Employee training (eight criteria),~~2~~
  - Self-exclusion (11 criteria),

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<sup>23</sup> [Smoke Free Illinois Act](#) (410 ILCS 82/).

- Assisting patrons who may have problems with gambling (four criteria),
- Informed decision-making (three criteria),
- Advertising and promotion (five criteria),
- Access to money (four criteria), ~~and~~
- Venue and game features (seven criteria), ~~and~~

.10 The registrant shall calculate a weighting factor for each gaming facility as the revenue from that facility divided by the registrant's total revenue across all gaming facilities.

.11 The percentage of criteria achieved by each facility shall be multiplied by its weighting factor and summed across all gaming facilities to determine the percentage for disclosure.

.12 The registrant should disclose the percentage of its facilities, by revenue, for which RG Index certification has been attained.

**SV0202-03. Percentage of online gaming operations implementing National Council on Problem Gambling's (NCPG) Internet Responsible Gambling Standards**

.13 The registrant shall disclose the percentage of its online gaming operations (by revenue) that implement the NCPG Internet Responsible Gambling Standards, where:

- Online games are defined as any registrant-owned or operated online platform that enables individuals to place, receive, or otherwise knowingly transmit a bet or wager by any means that involve the use, at least in part, of the Internet.<sup>24</sup>
- The NCPG Internet Responsible Gambling Standards and specific criteria can be found [here](#).

.14 The percentage reflects the revenue-weighted implementation of the NCPG Internet Responsible Gambling Standards across gaming websites, and is calculated as follows:

- The registrant shall calculate the percentage of NCPG criteria achieved for each online gaming website.
- This percentage shall be calculated as the number of NCPG criteria for which the facility is in compliance divided by the total number of criteria.
- For the purposes of this disclosure, the total number of criteria is 34, which are counted as each sub-element<sup>25</sup> under the eight core standards:
  - Policy (three criteria),

<sup>24</sup> Adapted from 31 U.S. Code § 5362. Available online: <http://www.law.cornell.edu/uscode/text/31/5362>.

<sup>25</sup> The NCPG Internet Responsible Gambling Standards sub-elements are generally designated as a topic followed by a colon (:) and further explanation of the topic.

- Staff training (two criteria),
  - Informed decision-making (four criteria),
  - Assisting players (two criteria),
  - Self-exclusion (eight criteria),
  - Advertising and promotion (three criteria),
  - Game and site features (11 criteria), and
  - Research (one criterion).
- .15 The registrant shall calculate a weighting factor for each online gaming website as the revenue from that online gaming website divided by the registrant's total revenue across all online gaming websites.
- .16 The percentage of criteria achieved by each online gaming website is multiplied by its weighting factor and summed across all online gaming websites to determine the percentage for disclosure.

# Smoke-free Casinos

## Description

Casino facilities are usually windowless environments with a relatively high concentration of people at any time. While anti-smoking campaigns have helped states enact smoking bans for public places, many casinos remain exempt from the bans in the U.S. Smoke exposes employees and patrons to risks of heart attacks and cancer. Casino dealers tend to have higher-than-average rates of respiratory illness. Companies that derive a significant portion of their revenue from smoking customers may be negatively affected by smoking bans, which are becoming more common in the U.S. On the other hand, by creating smoke-free facilities, casino operators may be better positioned to capture the market of non-smoking patrons.

## Accounting Metrics

### SV0202-04. Percentage of gaming floor where smoking is allowed

.18 The registrant shall disclose the percentage of its gaming floor, in square meters, where smoking is permitted (i.e., areas where smoking is not banned by law or designated by the registrant as non-smoking), where:

- Gaming floor is defined as any registrant-owned establishment utilized primarily for the purposes of gaming and where gaming equipment or supplies are operated for the purposes of accruing business revenue.<sup>26</sup>
- Designated non-smoking areas are defined as areas within the casino's gaming floor that are clearly marked "non-smoking," are actively monitored for smoking violations, and which are separately ventilated from enclosed indoor areas where smoking is allowed.
- The scope of disclosure excludes areas adjacent to the gaming floor, such as any hallway, reception area, retail space, bar, nightclub, restaurant, hotel, entertainment venue, or office space.

.19 The percentage is calculated as the gaming floor area where smoking is permitted divided by the total gaming floor area.

.20 The registrant should disclose the percentage of its gaming floor area that is mandated by law to be designated non-smoking, calculated as the gaming floor area that is required by law to be designated as non-smoking divided by the total gaming floor area.

### SV0202-05. Percentage of gaming staff that work in areas where smoking is allowed

.21 The registrant shall disclose the percentage of its gaming staff, on an hours-worked basis, that work in areas where smoking is permitted (i.e., areas where smoking is not banned by law or designated by the registrant as non-smoking), where:

- Gaming staff is defined as any person employed by an operator or retailer that hosts gaming to work directly with the gaming portion of such operator or retailer's business, and who must be twenty-one

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<sup>26</sup> [Smoke Free Illinois Act \(410 ILCS 82/\)](#).

years of age or older and hold a support license. Gaming staff include, but are not be limited to, dealers; change and counting room personnel; cashiers; floormen; cage personnel; slot machine repairmen or mechanics; persons who accept or transport revenue from a slot, blackjack, or poker-table drop or dropbox; security personnel; shift or pit bosses; floor managers; supervisors; slot machine and slot booth personnel; and any other employees whose main work station is located in a gaming facility.<sup>27</sup>

- Gaming floor is defined as any registrant-owned establishment utilized primarily for the purposes of gaming and where gaming equipment or supplies are operated for the purposes of accruing business revenue.<sup>28</sup>
- Designated non-smoking areas are defined as areas within the casino's gaming floor that are clearly marked "non-smoking," are actively monitored for smoking violations, and which are separately ventilated from enclosed indoor areas where smoking is allowed.

- .22 The percentage of staff is calculated as the number of gaming staff man-hours worked on the casino's gaming floor in areas that are not designated as non-smoking, divided by the total number of gaming staff man-hours.
- .23 The registrant should disclose the percentage of its gaming staff that is mandated by law to be stationed in a designated non-smoking area, calculated as the number of gaming staff that are mandated by law to be stationed for work in the casino's designated non-smoking gaming facilities, divided by the total number of gaming staff.

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<sup>27</sup> [Colorado State Smoking Ban](#) (House Bill 08-1113)

<sup>28</sup> [Smoke Free Illinois Act](#) (410 ILCS 82/)

# Internal Controls on Money Laundering

## Description

By the nature of its business, the Casinos & Gaming industry has to deal with large amounts of money. Therefore, companies in the industry need to ensure the presence of internal controls to prevent violation of various reporting and money laundering regulations. Casino operators that fail to ensure a robust framework to detect and prevent money laundering activities may open themselves to investigations. Violations of Anti-Money Laundering laws and regulation could result in criminal prosecution and substantial regulatory penalties.

## Accounting Metrics

### SV0202-06. Description of anti-money laundering policies and practices

.24 The registrant shall discuss its policies and management practices for assessing and managing money laundering risks internally as well as those associated with business partners in its value chain.

- Relevant business partners include customers, suppliers, contractors, and subcontractors.

.25 Relevant management practices include:

- Conducting a risk assessment
- Employee awareness and training programs
- Customer due diligence, including patron identification and verification and know-your-customer protocols
- Mechanisms for recordkeeping, reporting to government agencies (Financial Crimes Enforcement Network or others), and investigation of suspicious activities and red flags
- Transaction monitoring
- Enforcing a cap on ticket-in and ticket-out redemptions at slot machine kiosks
- Barring cash-for-cash exchanges above a set threshold or for the purchase of casino checks

.26 The registrant may choose to discuss the implementation of one or more of the following:

- Financial Action Task Force (FATF) Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion
- FATF Guidance on the Risk-Based Approach for Casinos
- U.S. Department of the Treasury Financial Crimes Enforcement Network (FinCEN) Guidance on Anti-Money Laundering Programs
- FinCEN Suspicious Activity Reporting Guidance for Casinos

- FinCEN Guidance on Preparing a Complete & Sufficient Suspicious Activity Report Narrative
- e-CFR “Know Your Customer” Guidance
- American Gaming Association (AGA) Code of Conduct for Responsible Gaming
- AGA Suspicious Activity Reporting Policy guidelines
- AGA Best Practices for Anti-Money Laundering Compliance

.27 The registrant should discuss the effectiveness of programs and any outcomes, including but not limited to:

- Third-party auditing of the casino’s overall program
- The number of customers who have undergone due diligence procedures
- The number and types of due diligence reports performed
- The number of Suspicious Activity reports filed to FinCEN

#### **SV0202-07. Amount of legal and regulatory fines and settlements associated with money laundering**

- .28 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with money laundering, including, but not limited to, violations of the Bank Secrecy Act, Foreign Corrupt Practices Act (e.g., recordkeeping requirements), China’s Anti-Money Laundering Law, and other anti-money laundering legislation.
- .29 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

#### **Note to SV0202-07**

- .30 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper recordkeeping, etc.) of fines and settlements.
- .31 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

#### **Additional References**

[Financial Action Task Force \(FATF\) Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion](#)

U.S. Department of the Treasury Financial Crimes Enforcement Network (FinCEN) Guidance on Anti-Money Laundering Programs [“Casino Recordkeeping, Reporting, and Compliance Program Requirements”](#)

FinCEN [Suspicious Activity Reporting Guidance for Casinos](#)

FinCEN [Guidance on Preparing A Complete & Sufficient Suspicious Activity Report Narrative](#)

e-CFR ["Know Your Customer" Guidance](#)

American Gaming Association ["Best Practices for Anti-Money Laundering Compliance"](#) ~~GA Suspicious Activity Reporting Policy guidelines~~

# Political Spending

## Description

.32—Casinos are often perceived to be associated with social ills such as embezzlement, drunken driving, and personal bankruptcies in the nearby communities. This negative perception makes it complicated for casino operators to grow their business and obtain permits for new casinos. Therefore, lobbying is particularly relevant to the Casinos & Gaming industry, where the industry's existence depends on local and federal regulations. The issue of political contributions and lobbying is related to the interaction of companies with the regulatory environment. In the current economic and political environment, with increasing amounts of money flowing into politics, companies that are seen as having undue influence on regulators and policymakers are likely to face reputational harm. This is especially relevant in cases where lobbying campaigns are misaligned with corporate social responsibility initiatives and in regions where voter sentiments toward the industry are split.

## Accounting Metrics

### **SV0202-08. Amount of political campaign spending, lobbying expenditures, and contributions to tax exempt groups including trade associations**

.33 The registrant shall disclose its total monetary contributions, in U.S. dollars, to political campaigns, lobbyists or lobbying organizations, and tax exempt groups, including trade associations that aim to influence political campaigns or participate in political lobbying.

- The scope of disclosure includes the following:

- Political spending, which includes any direct or indirect contributions or expenditures in support of, or opposition to, a candidate for public office or a ballot measure.
- Any payments made to trade associations or tax exempt entities that are used to influence a political campaign (including advocacy organizations, commonly classified as social welfare organizations under Section 501(c)(4) of the Internal Revenue Code, or business leagues, chambers of commerce, boards of trade, and similar organizations classified under Section 501(c)(6) of the Internal Revenue Code).
- Any direct or indirect political expenditure (one time or recurring) that must be reported to the Federal Election Commission, the Internal Revenue Service, or a state disclosure agency.
- Any direct or indirect contributions to registered lobbyists or lobbying organizations, including contributions made to trade organizations that contribute to political lobbying efforts.

### **SV0202-09. Five largest political, lobbying, or tax exempt group expenditures**

.34 The registrant shall disclose the recipients of its five largest contributions disclosed in SV0202-08, defined as the five largest amounts in aggregate during the fiscal year that were contributed to an individual candidate, organization, ballot measure, or lobbying issue topic.

- ~~.35 The registrant shall aggregate, at the state level, all political contributions or contributions in kind associated with the host community of a registrant's proposed gaming establishment, including those made to a state gaming commission, a state level political campaign, a municipality, a municipal employee, or a local political campaign.~~
- ~~.36 The registrant shall disclose the amount (in U.S. dollars) contributed to each individual, organization, ballot measure, or lobbying issue topic.~~
- ~~.37 The registrant shall consider lobbying issue topics, at a minimum, to be general lobbying issue codes defined by The Lobbying Disclosure Act of 1995, but should include specific lobbying issues where available.~~



SERVICES SECTOR

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# LEISURE FACILITIES\*

## Sustainability Accounting Standard

### PROPOSED CHANGES TO PROVISIONAL STANDARDS

### EXPOSURE DRAFT

### REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0204

# LEISURE FACILITIES

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (https://www.sasb.org/public-comment).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Leisure Facilities industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

The Leisure Facilities industry is made up of companies that operate entertainment, travel, and leisure facilities and services. Companies in this industry operate amusement parks, movie theaters, ski facilities, sports stadiums, and leisure clubs and facilities. Leisure Facilities companies mainly generate revenue by providing live or digital entertainment to millions of guests and customers annually. Industry players usually operate any one type of facility across various locations in the U.S.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Leisure Facilities industry, the SASB has identified the following sustainability disclosure topics:

- Energy Management
- Customer & Worker Safety

### 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.<sup>7</sup>

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<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.<sup>9</sup>

### 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from

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<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(Item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) (“Risk Factors”) requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, “**Sustainability-Related Information**,” with a section that includes the material topics, performance metrics, and management’s view with respect to corporate positioning. See SASB’s “Mock 10-Ks” for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 (“Other Events”). This provision states that “The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders.” Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

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<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

# Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

<sup>15</sup> The AICPA's Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

# Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

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<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC                       | CATEGORY     | UNIT OF MEASURE | CODE     |
|---------------------------------------|--------------|-----------------|----------|
| Attendance <sup>19</sup>              | Quantitative | Number          | SV0204-A |
| Number of customer-days <sup>20</sup> | Quantitative | Number          | SV0204-B |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>21</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to **SV0204-A**—Attendance is the total number of customers who visited the leisure facility.

<sup>20</sup> Note to **SV0204-B**—Customer-days is the aggregate total amount of time customers spent visiting the leisure facility, calculated as the sum of the visitation time of each customer. For facilities that sell day passes (e.g., amusement parks), but do not track entry and exit times, the hours of operation open to guests can be used for estimation. For facilities that sell single unit entry passes (e.g., movie theaters), the average visitation time can be used for estimation.

<sup>21</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

## Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC                    | ACCOUNTING METRIC   | CATEGORY     | UNIT OF MEASURE                 | CODE                                      |
|--------------------------|---|--------------|---------------------------------|---|
| Energy Management        | Total energy consumed, percentage grid electricity, percentage renewable  | Quantitative | Gigajoules (GJ), Percentage (%) | SV0204-01                                 |
| Customer & Worker Safety | Customer (1) fatality rate and (2) injury rate <sup>22</sup>  | Quantitative | Rate                            | SV0204-02                                 |
|                          | <del>Employee</del> (1) Total Recordable Injury Rate and (2) Near Miss Frequency Rate <u>for (a) permanent employees and (b) seasonal employees</u> | Quantitative | Rate                            | <del>SV0204-03</del><br><u>TA06-13-01</u> |
|                          | Percentage of facilities inspected for safety, percentage of facilities that failed inspection  | Quantitative | Percentage (%)                  | SV0204-04                                 |

<sup>22</sup> Note to **SV0204-02**—Disclosure shall include a description of serious incidents, outcomes, and corrective actions implemented in response.

# Energy Management

## Description

Leisure Facilities operate large outdoor and indoor facilities that consume large quantities of energy. A significant portion of the industry's electricity usage is commercially purchased. This purchased electricity indirectly leads to the release of greenhouse gas (GHG) emissions, which is a significant contributor to climate change. Companies in the industry are implementing energy management best practices in order to reduce operating expenses and environmental impacts while improving their reputation with guests.

## Accounting Metrics

### **SV0204-01. Total energy consumed, percentage grid electricity, percentage renewable**

- .01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.
- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
  - The scope includes only energy consumed by entities owned or controlled by the organization.
  - The scope includes energy from all sources including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- .02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).
- .03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.
- .04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.
- .05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.
- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
  - For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.<sup>23</sup>

.06 Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

- For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:
  - Energy from hydro sources that are certified by the Low Impact Hydropower Institute.
  - Energy from biomass sources is limited to sources that are considered “eligible renewables” according to the Green-e Energy National Standard Version 2.4 or that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

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<sup>23</sup> The SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

# Customer & Worker Safety

## Description

Leisure Facility companies operate parks and facilities that expose guests and employees to potentially unsafe conditions that may result in injury and even death. Safety management therefore includes managing the safety of amusement park rides and ski slopes as well as operating buildings where large crowds of people may be present. The industry is mainly subject to low-probability but high-magnitude safety concerns, particularly at amusement parks. Ensuring the highest standards of safety will help companies reduce reputational damage and contingent liabilities from costly lawsuits.

## Accounting Metrics

### SV0204-02. Customer (1) fatality rate and (2) injury rate

.08 The registrant shall disclose the customer (1) fatality rate and (2) injury rate, where:

- Fatality shall exclude death by natural causes.
- Injury is defined as harm to people requiring professional medical treatment beyond first aid, consistent with OSHA Form 300.
- The scope of disclosure includes and fatalities or injuries that were sustained by patrons when entering, exiting, riding, or otherwise involved with the registrant's facility and any features therein.

.09 The rates are calculated as the number per million customers.

#### Note to **SV0204-02**

.10 The registrant shall describe serious incidents, including their root causes, outcomes, and any corrective actions implemented in response.

.11 A serious safety incident is defined as any event that results in:

- One or more deaths;
- A serious injury, defined as an injury requiring immediate admission and hospitalization in excess of 24 hours for purposes other than medical observation, consistent with IAAPA and NSC; or
- Damage to property in excess of \$100,000.

### **SV0204-03TA06-13-01. Employee (1) Total Recordable Injury Rate and (2) Near Miss Frequency Rate for (a) permanent employees and (b) seasonal employees**

.12 For registrants whose workforce is entirely U.S.-based, the registrant shall disclose its total recordable injury rate (TRIR), as calculated and reported in the Occupational Safety and Health Administration's (OSHA) Form 300.

- OSHA guidelines provide details on determination of whether an event is a recordable occupational incident as well as definitions for exemptions for incidents that occurred in the work environment but are not occupational.

.13 For registrants whose workforce includes non-U.S.-based employees, the registrant shall calculate its total recordable injury rate according to the U.S. Bureau of Labor Statistics guidance and/or using the U.S. Bureau of Labor Statistics calculator.

.14 The registrant shall disclose its near miss frequency rate (NMFR), where a near miss is defined as an incident in which no property or environmental damage or personal injury occurred, but damage or personal injury easily could have occurred but for a slight circumstantial shift.

- The registrant should refer to organizations such as the National Safety Council (NSC) for guidance on implementing near miss reporting.
- The registrant should disclose its process for classifying, identifying, and reporting near miss incidents.

.15 The registrant shall disclose its TRIR and NMFR separately for permanent employees and for seasonal employees.

.16 Seasonal employees are defined as individuals employed on a temporary basis with a known limited contract and employment end date.<sup>24</sup>

.17 Permanent employees are defined as all other employees not meeting the criteria for seasonal employees.

~~.15.18~~ The scope includes all employees, domestic and foreign.

~~.16.19~~ Rates shall be calculated as: (statistic count / total hours worked)\*200,000.

#### **SV0204-04. Percentage of facilities inspected for safety, percentage of facilities that failed inspection**

~~.17.20~~ The registrant shall disclose the percentage of facilities that were inspected for facility safety by a relevant regulatory oversight authority during the fiscal year and the percentage of facilities that failed safety inspections.

~~.18.21~~ Facility safety inspections refers to those relating to the physical condition and appropriate design of buildings and structures with respect to sufficiency of entry or exit areas, capacity of space consistent with use, and adequacy of sprinkler systems and other fire suppression equipment, among other aspects related to the safety of the facility.

- The scope of facility safety also includes the safe and proper functioning of any features contained within facilities, such as rides, ski lifts, or monorails, in accordance with applicable standards and with respect to the following:
  - Design and Manufacture
  - Testing

<sup>24</sup> Definition based on the U.S. Department of Labor guidance for Temporary Employees.

- Operation
  - Maintenance
  - Inspection
  - Quality Assurance
- Facility and feature safety are inspected for compliance with relevant standards. Examples of amusement park standards for mechanical safety include the U.S. Consumer Product Safety Commission and National Safety Council park safety standards set forth by ASTM International (e.g., ASTM F24 Standards), as well as local building code standards for permanent rides. Examples of standards for ski lift safety include the American National Standards Institute (ANSI) B77 and the Canadian equivalent (Z98 standards). For monorails, the International Monorail Association recommends the American Society of Civil Engineers (ASCE) standards for Automated People Movers (APM).

~~19.22~~ Relevant regulatory oversight authorities include, but are not limited to, federal agencies, state agencies (such as a state tramway board), or local agencies (such as local fire and building departments).

~~20.23~~ For the purpose of this disclosure, a safety inspection is considered “passing” if no restrictions were placed on the registrant’s operations and no follow-up inspections were required following the initial inspection.

~~21.24~~ The scope of disclosure includes any facilities owned or operated by the registrant.

~~22.25~~ The percentage inspected is calculated as the total number of facilities that were inspected for safety, divided by the total number of facilities.

~~23.26~~ The percentage failed is calculated as the total number of facilities that failed a safety inspection, divided by the total number of facilities that were inspected for safety.

~~24.27~~ The registrant may choose to discuss its approach to assuring facility safety within its operations in regions where inspections are not routinely conducted.

### **Additional References**

[Fixed-Site Amusement Ride Injury Survey, 2011 Update](#), IAAPA and NSC, March 2013.



SERVICES SECTOR

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# **ADVERTISING & MARKETING\***

## **Sustainability Accounting Standard**

### **PROPOSED CHANGES TO PROVISIONAL STANDARDS**

### **EXPOSURE DRAFT**

### **REDLINE OF STANDARD FOR PUBLIC COMMENT**

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0301

# ADVERTISING & MARKETING

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Advertising & Marketing industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

The Advertising & Marketing industry is comprised of companies that create advertising campaigns for use in media, display, or direct mail advertising and related services including market research. Advertising & Marketing companies are engaged primarily by businesses selling consumer products, entertainment, financial services, technology products, and telecommunication services. Larger advertising companies are structured as holding companies, owning multiple agencies across the globe that provide a wide range of services such as custom publishing, brand consultancy, mobile and online marketing, and public relations. For any ad campaign, the same company may be engaged in all aspects, from graphic arts and content creation to data analytics, marketing research, and media planning and buying, or the company may be in charge only of certain aspects.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”<sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.<sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Advertising & Marketing industry, the SASB has identified the following sustainability disclosure topics:

- Advertising Integrity
- Data Privacy
- Workforce Diversity & Inclusion

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<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

## 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.<sup>9</sup>

## 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

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<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(Item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

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<sup>15</sup> The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC  | CATEGORY     | UNIT OF MEASURE | CODE     |
|--|--------------|-----------------|----------|
| Median reach of advertisements and marketing campaigns <sup>19</sup>       | Quantitative | Number          | SV0301-A |
| Number of exposures to advertisements or marketing campaigns <sup>20</sup> | Quantitative | Number          | SV0301-B |
| Median frequency of exposures <sup>21</sup>                                | Quantitative | Number          | SV0301-C |
| Number of employees  | Quantitative | Number          | SV0301-D |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to **SV0301-A**—“Reach” refers to the percentage of consumers in the target audience that are exposed to a particular advertisement in the stated period of time. “Target audience” refers to the group of people toward whom advertisements are aimed.

<sup>20</sup> Note to **SV0301-B**—“Exposures” refers to the opportunities that a viewer, listener, or reader had to see or hear an advertisement (also known as “impressions” for online marketing).

<sup>21</sup> Note to **SV0301-C**—“Frequency” refers to the number of times targeted consumers are exposed to advertisements or marketing campaigns in the stated period of time.

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>22</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

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<sup>22</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

# Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC                           | ACCOUNTING METRIC  | CATEGORY                | UNIT OF MEASURE           | CODE                                      |
|---------------------------------|--|-------------------------|---------------------------|---|
| Advertising Integrity           | Amount of legal and regulatory fines and settlements associated with false, deceptive, or unfair advertising <sup>23</sup>   | Quantitative            | U.S. Dollars (\$)         | SV0301-01                                 |
|                                 | Percentage of campaigns reviewed for adherence with the Advertising Self-Regulatory Council's (ASRC) standard, percentage of those in compliance                   | Quantitative            | Percentage (%) by revenue | SV0301-02                                 |
|                                 | Percentage of campaigns that promote <u>tobacco or alcohol</u> products <del>or services deemed socially harmful and subject to restrictions or taxes on use</del> | Quantitative            | Percentage (%) by revenue | <del>SV0301-03</del><br><u>TA06-15-01</u> |
| Data Privacy                    | Discussion of policies and practices relating to behavioral advertising and consumer privacy   | Discussion and Analysis | n/a                       | SV0301-04                                 |
|                                 | Percentage of online advertising impressions that are targeted to custom audiences   | Quantitative            | Percentage (%) by revenue | SV0301-05                                 |
|                                 | Amount of legal and regulatory fines and settlements associated with consumer privacy <sup>24</sup>  | Quantitative            | U.S. Dollars (\$)         | SV0301-06                                 |
| Workforce Diversity & Inclusion | Percentage of gender and racial/ethnic group representation for: (1) executives, (2) professionals, and (3) all others   | Quantitative            | Percentage (%)            | SV0301-07                                 |

<sup>23</sup> Note to **SV0301-01**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>24</sup> Note to **SV0301-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

# Advertising Integrity

## Description

All businesses have a legal responsibility to ensure that advertising about their products and services is truthful and not deceptive. Both the content of ads and their placement is included in this scope. While much of the burden of compliance with these regulations lies on advertisers, ad agencies play a vital role in creation of ad content and are responsible for advising their clients regarding the applicable regulations. Consumer protection laws provide guidance and restrictions on advertising to children. There are strict guidelines on advertising regulated products, like alcohol, tobacco, and drugs. Regulators investigate the involvement of the ad agency in any deceptive advertising and can take action against agencies. Advertising and marketing companies are keenly aware of these regulations and concerns and many participate in self-regulatory programs that address these areas.

## Accounting Metrics

### **SV0301-01. Amount of legal and regulatory fines and settlements associated with false, deceptive, or unfair advertising**

- .01 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with incidents relating to false, deceptive, or unfair advertising, including, but not limited to, violations of the Federal Trade Commission Act (15 U.S.C §§ 41-58, as amended) which requires that (1) advertising must be truthful and non-deceptive; (2) advertisers must have evidence to back up their claims; and (3) advertisements cannot be unfair.
- .02 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

#### Note to **SV0301-01**

- .03 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., lack of substantiation of claims, etc.) of fines and settlements.
- .04 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

### **SV0301-02. Percentage of campaigns reviewed for adherence with the Advertising Self-Regulatory Council's (ASRC) standard, percentage of those in compliance**

- .05 The registrant shall disclose the percentage of its advertising and marketing campaigns (by revenue) that were reviewed by the ASRC for adherence to the ASRC voluntary self-regulatory programs and policies, which are directed at performance of advertisers (e.g., the clients of advertising agencies).
  - The scope of disclosure is all advertising and marketing campaigns and associated recommendations by the registrant (e.g., placement of ads).

.06 The ASRC provides guidance and sets standards of truth and accuracy for national advertisers, and is administered by the Council of Better Business Bureaus. The ASRC sets policies and procedures for the following self-regulatory entities:

- National Advertising Division (NAD), Children’s Advertising Review Unit (CARU), and Electronic Retailing Self-Regulation Program (ERSP) are the investigative arms of the ASRC’s voluntary self-regulation program, responsible for receiving or initiating, evaluating, investigating, and resolving complaints or questions from any source involving the truth or accuracy of national advertising, or in the case of CARU, consistency with CARU’s [Self-Regulatory Program for Children’s Advertising](#).
- Online Interest-Based Accountability Program (Accountability Program) monitors entities engaged in online behavioral advertising (OBA) to ensure compliance with the Self-Regulatory Principles for Online Behavioral Advertising.

.07 The percentage of campaigns is calculated as the revenue associated with advertising and marketing campaigns that were reviewed by ASRC for adherence to the ASRC voluntary self-regulatory programs and policies, divided by total advertising and marketing revenue.

.08 The registrant shall disclose the percentage of its ASRC-reviewed advertising and marketing campaigns, by revenue, that were found by ASRC to be in compliance with its voluntary self-regulatory programs and policies.

**~~SV0301-03TA06-15-01. Percentage of campaigns that promote alcohol or tobacco products or services deemed socially harmful and subject to restrictions or taxes on use~~**

.09 The registrant shall disclose the percentage of its advertising and marketing campaigns that promote ~~the following products or services, which are widely deemed to have potential for causing social harm and are subject to restrictions or taxes on use~~ alcohol or tobacco products, where:

- Tobacco products are defined by the U.S. Food and Drug Administration as any product made or derived from tobacco that is intended for human consumption, including any component, part, or accessory of a tobacco product. This includes, among other products, cigarettes, cigarette tobacco, roll-your-own tobacco, and smokeless tobacco.

• ~~Alcohol~~

• ~~Tobacco~~

• ~~Gambling~~

• ~~Pharmaceuticals and over the counter drugs~~

• ~~Firearms and ammunition~~

• ~~Gasoline and other fuels~~

- Alcohol products are any product capable of being consumed containing more than a half percent of ethanol or ethyl alcohol by volume.<sup>25</sup>

- .10 The percentage is calculated as the total revenue generated from advertising and marketing campaigns that promote ~~the types of alcohol or tobacco products or services listed above~~, divided by the total revenue from all advertising and marketing campaigns.
- .11 The registrant may choose to discuss its approach to managing potential impacts from specific rules, prohibitions, media restrictions, labeling disclosures, and warning requirements applicable to advertising for ~~the types of products~~ alcohol or services listed above tobacco products (e.g., bans on outdoor advertisements for tobacco products in the U.S. and E.U.).

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<sup>25</sup> Definition adapted from the Texas Alcoholic Beverage Commission's guidance.

# Data Privacy

## Description

With the rise of social media, location-based mobile applications, and e-commerce, our digital footprints offer a more complete picture of consumer habits than ever before. Where companies used to simply place an ad for a new car in an automobile-related website or magazine, advertisers can now find highly detailed information about their buyers' habits and lives, and advertising strategies can be precisely targeted. Being part of an industry that uses large quantities of data about private citizens, Advertising & Marketing companies must weigh the benefits of targeted advertising along with public concern for data privacy.

## Accounting Metrics

### SV0301-04. Discussion of policies and practices relating to behavioral advertising and consumer privacy

.12 The registrant shall describe the nature, scope, and implementation of its policies and practices related to the privacy of consumer information, with a specific focus on how the registrant addresses the collection, usage, and retention of consumers' personally identifiable information and its approach to behavioral advertising, where:

- Consumer information includes information that pertains to a user's attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, behavioral data, location data, or personally identifiable information.
- Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
- Behavioral data is defined as the product of tracking, measuring, and recording individual behaviors such as consumers' online browsing patterns, buying habits, brand preferences, and product usage patterns, among others.
- Behavioral advertising makes use of data that was the product of tracking, measuring, and recording individual behaviors such as consumers' online browsing patterns, buying habits, brand preferences, and product usage patterns, among others.
- Location data is defined as data describing the physical location or movement patterns of an individual, such as Global Positioning System coordinates or other related data that would enable identifying and tracking of an individual's physical location.
- Personally Identifiable Information (PII) is defined as any information about an individual maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric

records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>26</sup>

.13 With respect to behavioral advertising, the registrant should describe how it addresses the following principles, described by the cross-industry [Self-Regulatory Principles for Online Behavioral Advertising](#):

- Education—participation in educational efforts for consumers about behavioral online advertising
- Transparency—clearly disclosing information about data collection and data-use practices
- Consumer control—allowing users to choose whether data is collected or transferred to non-affiliates
- Data security—providing basic security provisions and having clear policies relating to the retention of consumer information
- Material changes—obtaining consent before applying changes to policies that are less restrictive than existing ones
- Sensitive data—abiding by the Children’s Online Privacy Protection Act (COPPA) and handling consumer data such as financial information, Social Security numbers, and medical information
- Accountability—participation in self-regulatory organizations such as the Direct Marketing Association

.14 The registrant shall describe the information “lifecycle” (i.e., collection, use, retention, processing, disclosure, and destruction) and how information-handling practices at each stage may affect individuals’ privacy.

- With respect to data collection, the registrant should discuss which data or types of data are collected without consent of an individual, which require opt-in consent, and which require opt-out action from the individual.
- With respect to usage of data, the registrant should discuss which data or types of data are used by the registrant internally and under what circumstances the registrant shares, sells, rents, or otherwise distributes data or information to third parties.
- With respect to retention, the registrant should discuss which data or types of data it retains, the length of time of retention, and practices used to ensure that data is stored securely.

.15 The registrant shall discuss the degree to which its policies and practices address similar issues as those outlined in the [OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002 \(M-03-22\)](#), including use of Privacy Impact Assessments (PIAs),<sup>27</sup> where:

- A PIA is an analysis of how information is handled that ensures handling conforms to applicable legal, regulatory, and policy requirements regarding privacy; determines the risks and effects of collecting, maintaining, and disseminating information in identifiable form in an electronic information system;

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<sup>26</sup> Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information, GAO Report 08-536, May 2008.

<sup>27</sup> Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information, GAO Report 08-536, May 2008.

and examines and evaluates protections and alternative processes for handling information in order to mitigate potential privacy risks.

- As outlined by OMB M-03-22, PIAs must analyze and describe: (a) what information is to be collected, (b) why the information is being collected, (c) the intended use of the information, (d) with whom the information will be shared, (e) what opportunities individuals have to decline to provide information (i.e., where providing information is voluntary) or to consent to particular uses of the information (other than required or authorized uses) and how individuals can grant consent, and (f) how the information will be secured, among other government-specific requirements.

.16 The registrant shall discuss how its policies and practices related to privacy of consumer information address children's privacy, which at a minimum includes the provisions of COPPA.

.17 The registrant may choose to discuss its privacy policies in terms of how it complies with the Word of Mouth Marketing Association's (WOMMA) [privacy guidance](#).

#### **SV0301-05. Percentage of online advertising impressions that are targeted to custom audiences**

.18 The registrant shall disclose the percentage of its advertising impressions that are targeted to custom audiences, where:

- An advertising impression is a measure of the number of opportunities that a viewer, listener, or reader has to see or hear an online advertisement.
- Custom audiences are defined as individuals to whom advertisers target their advertisements based on behavioral data (e.g., interest-based advertising, which uses the pattern of web pages visited to infer a consumer's interest), or other consumer information. Excluded from this scope is any advertisement that is not directly targeted to a custom audience, such as those advertisements that are targeted according to publisher (e.g., contextual advertising).
- Consumer information includes information that pertains to a user's attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, behavioral data, location data, or personally identifiable information (PII).
  - Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
  - Behavioral data is defined as the product of tracking, measuring, and recording individual behaviors such as consumers' online browsing patterns, buying habits, brand preferences, and product usage patterns, among others.
  - Location data is defined as data describing the physical location or movement patterns of an individual, such as Global Positioning System coordinates or other related data that would enable identifying and tracking of an individual's physical location.

- Personally Identifiable Information (PII) is defined as any information about an individual maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>28</sup>
- The scope of disclosure is limited to impressions from advertising campaigns delivered online, including through mobile devices or Internet-based TV services.

- .19 The registrant shall calculate the percentage as the total number of advertising impressions that target custom audiences, divided by the total number of advertising impressions.
- .20 The registrant shall calculate the number of advertising impressions, in accordance with the Interactive Advertising Bureau's (IAB) Interactive Audience Measurement and Advertising Campaign Reporting and Audit Guidelines.
- .21 The scope of disclosure includes online advertising impressions generated directly by the registrant and that it has made on behalf of its customers, including those resulting from ad inventory sold on networks and exchanges operated by the registrant, ad space purchased on behalf of customers through platform buying services, and media plans developed by the registrant which specify the locations and type of ad placement.

#### **SV0301-06. Amount of legal and regulatory fines and settlements associated with consumer privacy**

- .22 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with incidents relating to consumer privacy, including, but not limited to, violations of COPPA, Directive 2002/58/EC (ePrivacy Directive), the U.S.-E.U. Safe Harbor Program, and the Federal Trade Commission Privacy Act.
- .23 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

#### **Note to SV0301-06**

- .24 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unauthorized monitoring, sharing of data, children's privacy, etc.) of fines and settlements.
- .25 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.
- .26 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

<sup>28</sup> *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

# Workforce Diversity & Inclusion

## Description

Competitive advantage in the Advertising & Marketing industry is derived from creative, cutting-edge ideas. Companies in this industry aim to attract top talent as inputs to create the most successful ad campaigns. Additionally, larger companies have clients across the globe, and in order to be able to effectively reach audiences, companies must employ a diverse workforce. Research has shown that connecting with target markets relies, to a large extent, upon employing a diverse workforce that is reflective of the communities served. A diverse workforce is a critical success factor to improving service outcomes and enhancing financial performance.

## Accounting Metrics

### SV0301-07. Percentage of gender and racial/ethnic group representation for: (1) executives, (2) professionals, and (3) all others-

.27 The registrant should summarize and disclose employee representation by employee category in the following table format:

| EMPLOYEE CATEGORY       | GENDER |        |     | RACE AND ETHNICITY |                           |                    |       |         |     |
|-------------------------|--------|--------|-----|--------------------|---------------------------|--------------------|-------|---------|-----|
|                         | Male   | Female | NA* | White              | Black or African American | Hispanic or Latino | Asian | Other** | NA* |
| Executives/Sr. Managers |        |        |     |                    |                           |                    |       |         |     |
| Professionals           |        |        |     |                    |                           |                    |       |         |     |
| All Others              |        |        |     |                    |                           |                    |       |         |     |

\*NA = not available/not disclosed

\*\*Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "Two or More Races" classifications

.28 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following three categories: Executives/Sr. Managers and Professionals (i.e., any employees classified as EEO-1 Professionals, with census job codes of 2600-2920), and All Others (i.e., other EEO-1 categories, including mid-level managers, professionals (with census job codes other than 2600-2920), technicians, sales, administrative support, and service workers).

.29 The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.

.30 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's [EEO-1 Report](#): White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "Two or More Races" classifications), or not disclosed/available.

- .31 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.
- Where relevant, the registrant may provide a supplemental breakdown of gender and racial/ethnic group representation by country or region.



SERVICES SECTOR

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# **MEDIA & ENTERTAINMENT\***

## **Sustainability Accounting Standard**

### **PROPOSED CHANGES TO PROVISIONAL STANDARDS**

### **EXPOSURE DRAFT**

### **REDLINE OF STANDARD FOR PUBLIC COMMENT**

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

\* Sustainable Industry Classification System™ (SICS™) #SV0302

# MEDIA ~~PRODUCTION & DISTRIBUTION~~ ENTERTAINMENT

## Sustainability Accounting Standard

### About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

### About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

### SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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# Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Media ~~Production & Distribution~~ Entertainment industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.<sup>1</sup> The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.<sup>2</sup>

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105<sup>3</sup> and referenced in AT-C section 395.<sup>4</sup> "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

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<sup>1</sup> The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

<sup>2</sup> <https://library.sasb.org/implementation-guide>

<sup>3</sup> <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

<sup>4</sup> <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

# Industry Description

Media ~~Production & Distribution~~ Entertainment companies create content or acquire rights to distribute content over cable or broadcast media, including entertainment programs, news, music, and children's programming. Companies in this industry also publish books, newspapers, and periodicals and broadcast radio and local television programming.

Note: Companies in the Media ~~Production & Distribution~~ Entertainment industry are increasingly engaged in distributing content via the Internet. SASB standards for such activities are outlined in the Internet Media & Services industry standard. For the purposes of this standard, it is assumed that Media ~~Production & Distribution~~ and entertainment companies distribute content using traditional channels, such as television broadcasts and movie theater screenings. Therefore, issues around data center energy use and online privacy, which may be material for companies in the industry that deliver content online, are not covered by this standard.

## Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See "Guidelines on non-financial reporting (methodology for reporting non-financial information)." <sup>5</sup> Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws. <sup>6</sup> Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

## Guidance for Disclosure of Sustainability Topics in SEC Filings

### 1. Industry-Level Sustainability Topics

For the Media ~~Production & Distribution~~ Entertainment industry, the SASB has identified the following sustainability disclosure topics:

- Journalistic Integrity & Sponsorship Identification
- Media Pluralism
- Intellectual Property Protection & Media Piracy

<sup>5</sup> [https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines\\_en](https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en)

<sup>6</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

## 2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.<sup>7</sup>

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.<sup>8</sup> **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.<sup>9</sup>

## 3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, describe in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K “any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.”<sup>10</sup>

Furthermore, the instructions to Item 303 state that the MD&A “shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition.”<sup>11</sup>

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

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<sup>7</sup> *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

<sup>8</sup> [https://library.sasb.org/materiality\\_bulletin/](https://library.sasb.org/materiality_bulletin/)

<sup>9</sup> <https://library.sasb.org/implementation-guide>

<sup>10</sup> C.F.R. 229.303(Item 303)(a)(3)(ii).

<sup>11</sup> SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management’s Discussion and Analysis of Financial Condition and Results of Operations: “We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing.”

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required "unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company to describe briefly any material pending or contemplated legal proceedings; instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

#### 4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.<sup>12</sup> Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

<sup>12</sup> <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

## Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:<sup>13</sup>

- The registrant'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.
- The registrant'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**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.<sup>14</sup>

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<sup>13</sup> These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

<sup>14</sup> In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.<sup>15</sup>

## Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;<sup>16</sup>
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

## Reporting Format

### Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.<sup>17</sup>

### Activity Metrics and Normalization

The SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

The SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in Form 10-K (e.g., revenue, EBITDA, etc.).

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<sup>15</sup> The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

<sup>16</sup> See US GAAP consolidation rules (Section 810).

<sup>17</sup> <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant, or if a better metric becomes available.<sup>18</sup>

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

**Table 1. Activity Metrics**

| ACTIVITY METRIC   | CATEGORY     | UNIT OF MEASURE | CODE     |
|---|--------------|-----------------|----------|
| Total recipients of media in the U.S. and the number of (1) households reached by broadcast TV, (2) subscribers to cable networks, and (3) circulation for magazines and newspapers <sup>19</sup> | Quantitative | Number          | SV0302-A |
| Total number of media productions and publications <sup>20</sup>  | Quantitative | Number          | SV0302-B |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting

<sup>18</sup> Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

<sup>19</sup> Note to **SV0302-A**—“Recipients of media” includes viewership, listenership, and readership, as measured by Nielsen and Arbitron for television and radio and through sales for newspapers and publications.

<sup>20</sup> Note to **SV0302-B**—Media productions and publications include book titles, movies, television programs, newspapers, blogs, and radio programs, among others.

systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.<sup>21</sup>

## Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

## Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making these disclosures in SEC filings should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps. These include, among other things, identifying the disclosure as "forward-looking," and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

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<sup>21</sup> The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

# Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

## Table 2. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC  | ACCOUNTING METRIC   | CATEGORY                | UNIT OF MEASURE           | CODE                 |
|--|---|-------------------------|---------------------------|----------------------|
| <b>Journalistic Integrity &amp; Sponsorship Identification</b> | Amount of legal and regulatory fines and settlements associated with libel or slander <sup>22</sup>   | Quantitative            | U.S. Dollars (\$)         | SV0302-01            |
|  | <del>Fact-checking expenses as a percentage of news-production costs<sup>23</sup></del>   | <del>Quantitative</del> | <del>Percentage (%)</del> | <del>SV0302-02</del> |
|  | Revenue from embedded advertising   | Quantitative            | U.S. Dollars (\$)         | SV0302-03            |
|  | Discussion of management approach to assuring journalistic integrity of news programming related to: (a) truthfulness, accuracy, objectivity, fairness, and accountability, (b) independence of content and/or transparency of potential bias, and (c) protection of privacy and limitation of harm | Discussion and Analysis | n/a                       | SV0302-04            |
| <b>Media Pluralism</b>   | Percentage of gender and racial/ethnic group representation for: (1) executives, (2) professionals, and (3) all others  | Quantitative            | Percentage (%)            | SV0302-05            |
|  | Description of approach to ensuring pluralism in news media content   | Discussion and Analysis | n/a                       | SV0302-06            |
| <b>Intellectual Property Protection &amp; Media Piracy</b>     | Number of copyright infringement cases, number successful, and number as copyright owner  | Quantitative            | Number                    | SV0302-07            |
|  | Discussion of management approach to assuring IP protection   | Discussion and Analysis | n/a                       | SV0302-08            |

<sup>22</sup> Note to **SV0302-01**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>23</sup> ~~Note to **SV0302-02**—Disclosure shall include a discussion of mechanisms in place to recognize and address errors and the need for corrections.~~

# Journalistic Integrity & Sponsorship Identification

## Description

Audiences rely on journalists for accurate and timely information on current events. Principles of journalism include accuracy, fairness, minimization of harm, independence, accountability, and transparency. Failure to adhere to these principles can affect the credibility of not only the journalist, but also the organization responsible for publishing or broadcasting the news. Transparency is important, not only for journalism, but also for entertainment content. In particular, regulations around the disclosure of sponsorship and endorsement are evolving.

## Accounting Metrics

### SV0302-01. Amount of legal and regulatory fines and settlements associated with libel or slander

.01 The registrant shall disclose the amount, in U.S. dollars, ~~(excluding legal fees),~~ of all fines or settlements associated with ~~involving~~ libel or slander, where:

- Libel is governed by state law and is therefore defined by the state with jurisdiction over a given incident. For example, California Civil Code §45 defines libel as a false and unprivileged publication by writing, printing, picture, effigy, or other fixed representation to the eye, which exposes any person to hatred, contempt, ridicule, or obloquy, which causes him to be shunned or avoided, or which has a tendency to injure him in his occupation.
- Slander is governed by state law and is therefore defined by the state with jurisdiction over a given incident. For example, California Civil Code §46 defines slander as a false and unprivileged publication, orally uttered, including by radio or any mechanical or other means, which: charges any person with crime or with having been indicted, convicted, or punished for crime; imputes in him the present existence of an infectious, contagious, or loathsome disease; tends directly to injure him with respect to his office, profession, trade, or business, either by imputing to him general disqualification in those respects which the office or other occupation peculiarly requires or by imputing something with reference to his office, profession, trade, or business that has a natural tendency to lessen its profits; imputes to him impotence or a want of chastity; or which, by natural consequence, causes actual damage.

.02 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

#### Note to SV0302-01

.03 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., slander) of fines and settlements.

.04 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

## **SV0302-02. Fact checking expenses as a percentage of news production costs**

- ~~.05 The registrant shall disclose fact checking expenses as a percentage of total programming expenses associated with news production, where fact checking expenses are those associated with actions taken to verify the factual accuracy of information before publication.~~
- ~~.06 Fact checking expenses include, but are not limited to, staff salaries, outsourced information verification service fees, consulting and legal fees, and technology costs associated with the review of information by journalists, editors, lawyers, and dedicated fact checking personnel before media is broadcast to the public.~~
- ~~.07 The scope of this disclosure includes all forms of the registrant's media services that provide news programming, such as television, radio, Internet, print media, etc.~~

### **Note to SV0302-02**

- ~~.08 The registrant shall discuss the nature of the mechanisms it has in place to recognize and address errors and the need for corrections including, but not limited to, assurance policies and programs, News Ombudsmen, and complaints handling procedures.~~
- ~~.09 The registrant shall discuss notable incidents involving inaccuracies in news productions, such as those that resulted in significant harm to an individual or that negatively affected a large number of people.~~

## **SV0302-03. Revenue from embedded advertising**

~~10.05~~ The registrant shall disclose the amount, in U.S. dollars, of revenue it earns from embedded advertising, where:

- Embedded advertising is defined as the inclusion of sponsored brands into entertainment and editorial media content.
- The scope of embedded advertising includes product placement, product integration, and sponsored content, where:
  - Product placement is the insertion of "branded products into programming in exchange for fees or other consideration," and includes the placement of a visual or aural reference to a commercial product, brand, or service in media content as a prop.
  - Product integration is the prominent positioning of a commercial product, brand, or service into media content.
  - Sponsored content is defined as advertisements that are designed to blend in with regular editorial content.

**SV0302-04. Discussion of management approach to assuring journalistic integrity of news programming related to: (a) truthfulness, accuracy, objectivity, fairness, and accountability, (b) independence of content and/or transparency of potential bias, and (c) protection of privacy and limitation of harm**

~~-11.06~~ The scope disclosure shall include all news programming produced or distributed by the registrant (e.g., international, national, and regional news as well as political news, financial news, entertainment news, etc.) across all forms of produced media (e.g., television, radio, Internet, etc.).

~~-12.07~~ The registrant shall discuss its approach to assuring the journalistic principles of truthfulness, accuracy, objectivity, fairness, and accountability, including policies to:

- Assure that copyright protection is maintained across all the registrant's produced media, such that all disseminated content acknowledges and respects the intellectual property rights of all authors.<sup>24</sup>
- Mitigate and disclose potential conflicts of interest.
- Address corruption and any related codes of conduct.

~~-13.08~~ The registrant shall discuss its approach to assuring the journalistic principles of independence of content and/or transparency of potential bias, including:

- Disclosure and transparency around sponsorship identification, paid product placement, and political advertising as well as the concentration of media ownership, among other topics.
- Policies and processes to maintain editorial independence from the influence of government, business, or interest groups. Where potential bias may exist, the registrant shall discuss its approach to transparently disclosing that bias.
- Approach to receiving benefits, including, for example, inducement, charging for coverage, and, in the case of journalists, paying sources illicitly for news content.

~~-14.09~~ The registrant shall discuss its approach to assuring the journalistic principles of protection of privacy and limitation of harm, including:

- Privacy of people (especially children) who may appear or be referred to in content.
- Privacy in gathering content and undertaking business activities (for example, maintaining the confidentiality of sources, protecting sources' privacy when taken to court, and avoiding violation of privacy during news gathering).
- Privacy in agreements for information provided by sources (e.g., on-the-record, off-record, Chatham House Rule, or embargos).

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<sup>24</sup> GRI, G4 Media Sector Supplement.

### ***Additional References***

Sponsorship Identification Rules & Embedded Advertising, Notice of Inquiry & Notice of Proposed Rule Making, 23 F.C.C.R. 10682, at para. 2 (2008). ~~Available~~, available online [here](#). \_\_\_\_\_

# Media Pluralism

## Description

Pluralism in media, which is diversity in the broadest sense, has many aspects. This disclosure topic focuses on both external and internal pluralism. External pluralism refers to media ownership, independent editorial boards, channels, titles, or programs, whereas internal pluralism refers to the social and political diversity represented in media content. Media ~~Production & Distribution~~and entertainment companies can ensure pluralism by maintaining on- and off-screen diversity and by safeguarding the independence of editorial boards and programming.

## Accounting Metrics

**SV0302-05. Percentage of gender and racial/ethnic group representation for: (1) executives, (2) professionals, and (3) all others.**

~~15.10~~ The registrant should summarize and disclose employee representation by employee category in the following table format:

| EMPLOYEE CATEGORY       | GENDER |        |     | RACE AND ETHNICITY |                           |                    |       |         |     |
|-------------------------|--------|--------|-----|--------------------|---------------------------|--------------------|-------|---------|-----|
|                         | Male   | Female | NA* | White              | Black or African American | Hispanic or Latino | Asian | Other** | NA* |
| Executives/Sr. Managers |        |        |     |                    |                           |                    |       |         |     |
| Professionals           |        |        |     |                    |                           |                    |       |         |     |
| All Others              |        |        |     |                    |                           |                    |       |         |     |

\*NA = not available/not disclosed

\*\*Other includes American Indian or Alaska Native, Native Hawaiian or ~~Other~~ Pacific Islander, and “Two or More Races” classifications

~~16.11~~ The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following three categories: Executives/Sr. Managers, Professionals (i.e., any employees classified as EEO-1 Professionals, with census job codes of 2600-2920), and All Others (i.e., other EEO-1 categories, including mid-level managers, professionals (with census job codes other than 2600-2920), technicians, sales, administrative support, and service workers).

~~17.12~~ The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.

~~18.13~~ The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant’s [EEO-1 Report](#): White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “Two or More Races” classifications), or not disclosed/available.

~~19.14~~ Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

- Where relevant, the registrant may provide a supplemental breakdown of gender and racial/ethnic group representation by country or region.

#### **SV0302-06. Description of approach to ensuring pluralism in news media content**

~~20.15~~ The registrant shall describe its policies and procedures to ensure pluralism of news media content, where pluralism includes having a range of racial, linguistic, gender, political, cultural, ideological, and other forms of diversity within the registrant's news media content

- For the purposes of this disclosure the concept of pluralism shall not include "external pluralism" or the size, degree of consolidation, and/or influence of the registrant within the larger media system.

~~21.16~~ Relevant policies and procedures include, but are not limited to, those relating to hiring of news and other staff (both on-air and off-air); maintaining transparency of ownership structures, selection criteria for experts, pundits, and others who appear in media to offer insight, opinions, and perspectives on news events and political discourse; codes of ethics that commit to independence of editorial content and respect for freedom of expression; and review boards that assure adherence to these policies.

~~22.17~~ The registrant shall discuss the scope of these policies and procedures, the mechanisms and oversight used to ensure their implementation, and how performance against the criteria is measured or evaluated.

- Examples of how performance is measured or evaluated may include, but is not limited to, documentation of changes to produced or distributed content that demonstrated improved pluralism, measures of performance relative to stated targets, or discussion of compliance in jurisdictions where pluralism of media is subject to regulation.

# Intellectual Property Protection & Media Piracy

## Description

Companies in the Media ~~Production & Distribution~~ Entertainment industry rely on their intellectual property (IP) to generate revenue. However, while IP protection is inherent to the business model of media companies, strong IP protection practices can sometimes conflict with the interest of society. Proponents of IP protection assert its importance as a driver of innovation. Opponents argue that assigning ownership can stifle innovation and competition since, by design, it creates monopolies. Despite the industry's best efforts, media piracy is quite rampant and companies devote significant resources to protecting and enforcing their IP rights. Media ~~Production & Distribution~~ and entertainment companies must strike a balance between protecting their intellectual property and ensuring access to media and allowing fair use.

## Accounting Metrics

### **SV0302-07. Number of copyright infringement cases, number successful, and number as copyright owner**

.18 The registrant shall disclose the number of copyright infringement cases in which it was involved, where:

- Copyright infringement occurs when a copyrighted work is reproduced, distributed, performed, publicly displayed, or made into a derivative work without the permission of the copyright owner.
- Copyright owner is defined as the person or entity who retains legal control over all (or some) of the rights granted under copyright law, and is usually the author of the work.

.19 The registrant shall disclose the number of successful copyright infringement cases in which it was involved, where:

- Success is defined as the instances where a liability and damages or permanent injunction (if included) decision is made in favor of the registrant. Success encompasses findings made in summary judgment, trial by jury, and bench awards.

.20 The registrant shall disclose the number of copyright infringement cases in which it was involved as copyright owner.

.21 The scope of disclosure includes cases that were adjudicated during the fiscal year even if the decision is under appeal.

### **SV0302-08. Discussion of management approach to assuring IP protection-**

.22 The registrant shall discuss its approach to the protection of its IP, where:

- The scope of this disclosure includes legal and non-compliance-based approaches to IP protection.
- Examples of legal approaches to IP protection include reliance on patent, copyright, trademark, and trade secret laws and licenses as well as other agreements with its employees, customers, suppliers,

and other parties to establish and maintain a company's intellectual property rights in content, technology, and products and services used to conduct its businesses.

- Examples of non-compliance-based approaches to IP protection include, but are not limited to, Digital Rights Management (DRM) systems, licensing agreements with entities that may otherwise pirate materials, adjusted pricing structures in markets with less stringent IP protection, and developing new technologies that encourage legitimate media purchases to be favored over pirated materials.

.23 The registrant may choose to discuss risks and opportunities associated with technological developments that enable media delivery without a subscription or direct purchase, and which satisfy the requirement under copyright law that the transmissions be private performances (such as consumer-owned antennas that capture signals for private use).