

# Client Alert

Current Issues Relevant to Our Clients

March 20, 2014

## Sustainability Accounting Standards Issued For Financial Sector

Last month, the Sustainability Accounting Standards Board (“SASB”) published its first standards calling for financial institutions to voluntarily collect, quantify and report data relevant to their environmental, social and governance (“ESG”) performance (“SASB Standards”). These standards, which are specific to the financial sector, separately cover commercial banks, investment banking and brokerage, asset management, consumer finance, mortgage finance, insurance, and security and commodity exchanges.

SASB is a United States not-for-profit organization formed in 2011 to develop and distribute sustainability accounting standards for the benefit of investors and consumers. The SASB Standards, which were developed with the input of industry participants, provide a uniform protocol for quantifying the sustainability aspects of an entity’s operation and performance on an industry-specific basis. The standards not only aid in the development of long-term business strategies for assessing and managing ESG risks and opportunities, they are also intended to be used by publicly-listed companies in the United States to disclose material sustainability information in connection with annual, quarterly and other reports filed with the Securities and Exchange Commission. The SASB Standards may be used as well by non-listed corporations to aid in the public disclosure of material sustainability information.

In the context of the SASB Standards, sustainability covers numerous facets of a business that may be material to an entity’s performance and value but are not necessarily covered by existing financial accounting or disclosure rules, including: (1) an entity’s impact on the environment; (2) an entity’s governmental and societal relationships; (3) the ability of an entity to manage human capital; (4) impacts of environmental and social factors on an entity’s business model and innovation; and (5) leadership and governance issues. SASB is developing standards industry-by-industry and, in addition to the financial standards, has already issued standards that cover the health care sector. SASB is still developing standards for the transportation, services, infrastructure, resource transformation, non-renewables, alternative energy, consumption and communications/technology sectors.

With respect to the financial sector, the SASB Standards focus on systematic risk management, responsible lending, and the integration of ESG factors into investment decisions and credit risk analyses. To this end, the SASB Standards provide a framework by which financial institutions can gather and disclose material ESG information, either quantitatively or through discussion and analysis, on issues such as:

- Financial inclusion and transparency
- Data security, customer privacy and technology risks
- Conflicts of interest
- Regulatory compliance and whistleblower actions
- Portfolio risk due to climate change, natural resource constraints and/or human rights concerns
- Employee incentives and risk taking
- Executive compensation
- ESG shareholder proposals

SASB is accredited by the American National Standards Institute (“ANSI”) and large investors, including CalSTRS, the California state teachers’ pension fund, are backing the new standards. SASB is seeking feedback on the financial sector standards through 2014.

## For More Information

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