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Leading figure says sustainability accounting standard is "uncomplicated and intuitive"

by **Jan Wagner** | September 23rd, 2015

Next year promises to be a big year for the Sustainability Accounting Standards Board (SASB), the non-profit organisation that has developed new standards for ESG (environmental, social and governance) reporting by listed US companies. At the end of next year's first quarter, SASB will complete the process of developing the standards and can truly begin its mission.

Working together with companies and investment firms, San Francisco-based SASB has developed ESG reporting standards for 80 industries in 10 sectors. While the Global Reporting Initiative (GRI) pioneered ESG reporting standards back in 1998, what sets SASB apart from the GRI and other initiatives like Integrated Reporting is, as Harvard Business School Professor Robert Eccles tells it, its industry-focused approach. SASB's standards identify the most pressing issues for each industry.

Materiality also plays a big role in SASB. An elusive concept, materiality basically refers to information that companies believe investors (and the public) need to know. Of course this means financial information – and indeed this is required of US companies by the Securities and Exchange Commission (SEC). But it also can mean other material matters like ESG issues.

"In exercising its fiduciary duty to the corporation, the board needs to determine the company's significant audiences and this is the basis for determining what is material for reporting purposes," says Eccles, who was interviewed recently by Responsible Investor.

"If, for example, a board deems the only significant audience to be short-term investors, then only short-term financial performance information will be material. If, on the other hand, the company has or wants to attract long-term oriented investors, it can elect to disclose ESG information it believes is material given its sector and its strategy." Eccles was Chairman of SASB between 2012 and 2014. He was succeeded by Mike Bloomberg, the former New York Mayor and media chief.

According to Eccles, the genius of SASB is that it is uncomplicated and makes intuitive sense. "If a company feels certain ESG information is material, it can just put it in the 10-K (the annual financial report required by the SEC).

For an oil company, the issue may be safety and operations, for a bank systemic risk and for a pharmaceutical firm access to medicine," he says.

Yet as SASB's standards are voluntary, how big will their impact really be on US financial markets? Wouldn't the success of SASB be ensured if it lobbied the SEC to mandate its standards? Eccles replies that SASB is already a force to contend with due to the involvement of the companies and investors in its development. (SASB says the 2,110 participants who helped develop the standards ranged from listed companies with a market capitalisation of $9.8trn (€8.7bn) as well as investment firms with $21.7trn in assets).

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As for the SEC, Eccles doesn't see the regulator embracing SASB on its own – or even being mandated to do so by the US Congress – in the short term. But he says: "I think the path to adoption of SASB looks like this: Once you get a critical mass of companies disclosing their material issues in their 10-K as per SASB and investors finding this information useful, it changes the dynamics. The legal risk shifts from the common US perception that disclosure is risky to one of non-disclosure being risky. The mission of the SEC is to protect investors through, among other things, greater transparency. SASB provides a foundation for ESG disclosure that investors will want."

In the interview, Eccles also talked about Arabesque Asset Management, where he recently was named as Chairman. Launched in 2013, Arabesque is the brainchild of Omar Selim and Andreas Feiner, who both worked together at Barclays' investment bank. Says Eccles: "Arabesque originally started out as a quant (quantitative investment strategy) project at Barclays, but after the financial crisis the bank didn't want to do it anymore. There was a management buyout and Omar and the team had the ingenious idea of being the first to combine ESG integration with smart quant investing."

Based in London and Frankfurt, Arabesque has grown to a total of 25 employees and Eccles says: "We are already contributing to the creation of a new investment style. We are showing that values around sustainability can contribute to superior financial performance. The more money that flows into this investment style, the better for companies, investors, and society at large."

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