



Committee on Corporate Reporting

December 23, 2020

Jeffrey Hales
Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Re: SASB Conceptual Framework

Submitted via comments@sasb.org

Dear Dr. Hales,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Sustainability Accounting Standards Board's (SASB) proposed changes to the SASB Conceptual Framework & SASB Rules of Procedure ("the proposal"). This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. CCR is a technical committee of FEI comprised of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately \$12.3 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, FASB, and PCAOB.

We believe that sustainability reporting and the associated standards and frameworks are still nascent. Additionally, there are a substantial number of framework- and standard-setting institutions currently focused on sustainability disclosure and related guidance, making it difficult for companies to effectively engage on the promulgation of "generally accepted" standards. As such, we have chosen to respond only to the Board's proposed definition of financial materiality. Our lack of response to other aspects of the proposal should not be construed as support. As preparers, we believe that the definition of financial materiality is fundamental to financial reporting and to the future development of sustainability reporting. Therefore, we have provided the following recommendation for the Board to consider as it contemplates redefining financial materiality in the SASB's proposed Conceptual Framework.

Definition of Financial Materiality

We recommend that instead of redefining financial materiality as proposed, the Board use the same jurisdictional materiality approach adopted by the Task Force on Climate-related Financial Disclosures (TCFD) in which companies "determine materiality... consistent with how they determine the materiality of other information included in their financial filings." This approach to financial materiality aligns with the SASB's global perspective, ensures as much compatibility as possible with national disclosure requirements, and avoids many of the interpretational issues associated with implementing a new definition of financial materiality.



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Although the Board’s proposed definition of financial materiality incorporates familiar elements from various definitions of “materiality” used by other organizations, we believe that subtle differences in wording can have significant consequences in practice. For example, the Board’s proposed definition of financial materiality contains a footnote that states, “Investment decisions include decisions relating to stewardship and proxy voting.” We do not believe that stewardship and proxy voting should be explicitly included in investment decisions, as their inclusion may create a broader definition of financial materiality than traditionally applied in a financial reporting context. Similarly, the Board’s proposed definition of financial materiality differentiates between short-, medium-, and long-term financial performance and enterprise value, which may increase the subjectivity, complexity, and effort required for preparers in assessing the materiality of potential disclosures.

Conclusion

We appreciate this opportunity to provide feedback on the Board’s proposed definition of financial materiality, and we would be pleased to further discuss our comments at your convenience.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International