TRENDING TOWARD FULL DISCLOSURE

BY BILL CONLEY

"Sooner or later."

These words echo repeatedly throughout the world of facility management. While simple, they can refer to many things. The vision of the future is rife with dire portents, warnings, threats and promises of consequences. However, through this miasma of "what-if" scenarios, there are also facts that must be acknowledged. Not ephemeral plausibilities, but truths that will define new roles in the built environment. Given the proper perspective, these facts can be taken as positive measures that will lead to sustaining an organization.

In the not-too-distant future, a day of accounting will arrive. Sustainability reporting is changing from being the smart thing to do into a necessity at the corporate and organizational level. For the U.S., ever since the Sarbanes-Oxley Act of 2002, corporate reporting has become increasingly prevalent and detailed. The current trend is to integrate environmental programs with finance to more fully disclose organizational performance. Never has transparency at the corporate or organizational level become more pronounced, as accounting now entails

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more than just numbers and includes overall performance reflected by non-financial information.

In 2010 the U.S. Securities and Exchange Commission (SEC) released guidelines for public companies that define the disclosures that organizations should be making relating to climate change. Institutional investors have been active in lobbying the SEC to create these rules so that companies will have to report when it comes to the challenges and opportunities presented by climate change. This guidance outlines climate-related "material risks" for which companies will be held accountable. These include the impacts of legislation and regulation, international accords, indirect consequences of regulation and business trends and the physical effects of climate change.

The recent European Union (E.U.) amendment to its general accounting directives is an indication of this same trend toward the disclosure of non-financial information on a global basis. It sets the requirement for the reporting of relevant and material information on policies, outcomes and risk. This includes non-financial key performance indicators regarding social, governance and environmental aspects and the due diligence implemented to minimize those impacts.

The E.U. amendment is aimed at larger companies at this time. However, the precedent being set that is requiring disclosure of material information will pervade throughout the E.U. over time, reflective of such mandates in other countries around the world.

This trend affects facility managers in a number of ways, as their role in the reporting process is critical. FMs are accountable for the environmental performance of the built landscape. Accountability refers to answerability and being called to account for actions taken. It entails the expectation of taking responsibility for practices, processes and outcomes. Within an organization, the principles of accountability aim to improve internal standards of corporate conduct, as well as external factors that deal with sustainable economic and ecologic strategies.

As organizations are meeting the challenges of transparency and full disclosure, the operations and costs of the facility are an integral part of what is communicated to all interested parties. Communication is one of the 11 competencies (as defined by IFMA through a global job task analysis) upon which the facility management profession is based. As facility managers continue to measure and monitor their resource consumption and streamline their operations, the ability to report progress and convey status through concise and topical communication is paramount. In the near future, refrains regarding sustainability will be changing from "How will this be managed?" to "Why hasn't this been done?" The choice is to start preparing for it now or to try to catch up later.

Reporting materiality

U.S. federal securities law seeks to protect individual investors by requiring publicly listed companies to disclose annual and other periodic performance information that would be necessary for a reasonable investor to make informed investment decisions. U.S. federal law requires publicly listed companies to disclose material information, defined by the U.S. Supreme Court as information presenting "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 information made available."

The concept of materiality recognizes that there exists information that is important to the fair presentation of an entity's financial condition and operational performance and that determines the content of a report. Disclosure of material sustainability issues is important to investors, companies, regulators and the public. Companies have limited resources and need to focus on managing the performance of issues that are material to their success. The potential for negative social and environmental impacts of operations can lead to high costs for companies, their investors and society as a whole and institutional investors have a fiduciary responsibility to consider material factors. As an added incentive, the SEC requires the

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- KATIE SCHMITZ EULITT
DIRECTOR, STAKEHOLDER ENGAGEMENT FOR SASB

disclosure of material information in filings used by companies and investors.

Sustainability Accounting Standards Board

The good news is that new industry-specific standards are being developed to better clarify the reporting process. The Sustainability Accounting Standards Board (SASB) is an independent 501(c)3 non-profit organization that is striving to increase the relevance of information available to investors while improving organizational performance on those environmental, governance and social issues most likely to impact organizational or corporate value. As such, SASB is creating sustainability accounting standards for more than 80 industries in 10 sectors that are designed for the disclosure of material information related to sustainability issues in SEC filings such as the Form 10-K, in compliance with Regulation S-K that calls for reporting on climate change.

The SASB process is a multi-stage, multi-stakeholder endeavor. It relies on evidence-based research that has been vetted by industries and investors before any standards are issued. SASB's work aligns with disclosure reform, encouraging not more disclosure, but better disclosure. SASB is working on the premise that the assessment criteria used to determine materiality in financial reporting can also be used in the non-financial reporting process.

Management of sustainability-related issues is an analog for good management. According to Katie Schmitz Eulitt, director, stakeholder engagement for SASB, "Increasingly, the management of environmental, social and governance issues is being recognized as driving improved corporate performance and enhanced investment returns. Investors have begun to see this and are increasingly interested in better visibility into how companies are managing these issues. They want improved transparency and better data on these issues."

The intent of SASB is not to reinvent the wheel. To date, roughly 80 percent of the metrics used in SASB guidance have been drawn from other sources. The five types of capital, too, should sound familiar:

environment; social; human; business model and innovation; and leadership and governance. What SASB does intend is to provide guidance for companies that will help them with disclosure that would answer most of the questions posited by investors.

All standards issued by SASB meet a particular set of criteria. The metric should describe in adequate detail performances related to material issues to be relevant. The metric needs to provide information that companies and investors deem to be useful. The metric has to be applicable to most companies in the industry and comparable for peer-to-peer benchmarking. Data collection should be cost-effective and performed in a timely manner at a reasonable cost.

The metric, or set of metrics, needs to be complete, providing enough data to enable understanding and valid interpretation of performance related to material issues. The metric should be directional, making clear that an increase or decrease in any numerical value indicates a change in performance. Finally, the process should be auditable, ensuring that the data that led to the metric can be verified. These are excellent guidelines for an FM sustainability report and set the stage for the organization, either as a template for corporate reporting or for integration into reporting disclosures.

Tie-in with IFMA

In looking at the sectors that SASB has defined, there are obvious correlations to IFMA councils and communities of practice (COPs). There is some overlap and some sectors may serve communities better than others, but as an overall guideline, IFMA councils and COPs pretty well fall within the following:

- The **Health Care Sector**, under which fall industries like biotechnology, health care delivery, health care distributors and managed care, sets the parameters for IFMA's Health Care Institute and Environmental Health and Safety Council.
- The **Financials Sector**, which includes commercial banks, investment banking and brokerage, asset management, consumer finance and insurance, supports reporting for IFMA's Banking Institutions and Credit Unions Council.

- The **Technology and Communications Sector** includes electronic manufacturing services and original design manufacturing, software and IT services, telecommunications and Internet media and services and relates to the Information Technology Council; the Manufacturing, Industrial and Logistics Council and the Data Center Community of Practice.
- The **Non-renewable Resources Sector** covers the full gamut of oil and gas industries, as well as coal, metals and mining and construction materials.
- The **Transportation Sector** deals with automobiles, transportation, airlines, air freight and logistics which would provide guidelines to the Airport Facilities Council and the Public Transportation Community of Practice.
- The **Services Sector**, which encompasses education, professional services, hotels and lodging, casinos and gaming, restaurants, advertising and marketing, and media production and distribution, would cover the needs of the Academic Facilities Council, the City and Country Clubs Council, the Facility Management Consultants Council, the Food Service and Restaurants Council, the Corporate Facilities Council, the Legal Industry Council, the Casino and Gaming Community of Practice and the Hospitality FM and Engineering Community of Practice.
- The **Resource Transformation Sector** details chemicals, aerospace and defense, electrical/electronic equipment, industrial machinery and goods and containers and packaging and could support the Research and Development Facilities Council.
- The **Consumption (I and II) Sectors** refer to both the creation of consumables and their distribution and sale and sets standards for the Retail Facilities Community of Practice.
- The **Renewable Resources and Alternative Energy Sector** includes biofuels, solar and renewable energy, independent power producers and energy traders, forestry and paper.
- The **Infrastructure Sector** involves all utilities, infrastructure construction, architecture, engineering and construction and real estate and establishes parameters that would benefit the Corporate Real Estate Council, the Public Sector Facilities Council and the Utilities Council.

FM importance and involvement

From an overall perspective, if organizations are going to be reporting on sustainability and environmental issues, then facility managers will need to be reporting, too. Such reporting is a vital step toward achieving a sustained and sustainable organization and it provides a number of benefits. It showcases a facility management department's accountability for its impacts and helps build trust and credibility.

It's important to note that reporting serves two purposes: just as it supplies information to stakeholders, it also acts as a guide for continual improvement. It improves processes and systems, leading to cost reductions through the measuring and monitoring cycle. Through an analysis of strengths and weaknesses, it enables an FM to develop broader vision and strategies that will sustain long-term success. Most importantly, it adds relevant and critical information that the organization needs to present its environmental stance and enhance its corporate social responsibility.

Sometimes, too, impetus and momentum need to be created from the facility management department and driven up. FM practices do have a large impact on natural resources and the environment, so what better place to start? As demonstrated in the course materials in IFMA's Sustainability Facility Professional® (SFP®) credential program, and in successful FM practices worldwide, sustainable facility management entails integrating FM programs with an organization's strategic plan. FMs most effectively can lay the foundation for sustainability so when the SEC comes knocking on the door, or when investors want to put their money into the right company, that all their questions are answered?

FMs are pioneers in effective resource management. As such, they are poised to explore sustainability: the new frontier. From a strategic planning standpoint, their five-year mission can take them boldly where no-one in the organization has gone before: evincing that accountability and sustaining an organization entails forward thinking — that they are not embarking on a three-month cruise, but a trek, with SASB as an available vehicle. FMJ

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Conley has served on the IFMA board of directors, is a recipient of IFMA's distinguished member of the year award and has twice received the association's distinguished author award.