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OPINION | REVIEW & OUTLOOK

Bloomberg's Business Nanny

The Sustainability Accounting board is a stalking horse for progressive politics.

By The Editorial Board

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Michael Bloomberg makes a campaign stop in Minneapolis, Jan. 23.

PHOTO: CRAIG LASSIG/SHUTTERSTOCK

BlackRock CEO Larry Fink recently made a splash by threatening to vote against corporate managers who don't disclose an array of non-financial information as directed by the Sustainability Accounting Standards Board. But what is SASB, and where is this all going?

Michael Bloomberg founded SASB in 2011 as a shadow regulator for his policy agenda. SASB claims to be modelled on the Financial Accounting Standards Board (FASB), a nonprofit with the imprimatur of the Securities and Exchange Commission that regulates how corporations account for and disclose financial information.

SASB's nine-member standards board issues guidelines for what kinds of sustainability information corporations should report to investors. Yet while financial accounting is more or less uniform for all businesses, SASB standards vary across 77 industries. Tracking the minutia will provide a lifetime job guarantee for corporate auditors.

Consumer banks have to disclose how many "no-cost retail checking accounts" they provide "to previously unbanked or underbanked customers." Investment houses must document loans that incorporate "environmental, social and governance" factors. Casinos have to report the share of employees who work where smoking is allowed.

SASB requires businesses in most high-paying industries to disclose workforce diversity. "Hiring foreign nationals to compensate for shortages in local talent can create risks related to perceived social implications," SASB says. That's interesting because Mr. Bloomberg's private media company, Bloomberg LP, reports 17% of its U.S. workers are foreign nationals while 10% are black or Latino. Under SASB this means Bloomberg needs to "improve employee engagement and work-life balance" to recruit more minorities and women.

Some standards would require a wild goose chase, literally. Restaurants must report their share of cage-free eggs and pork produced without gestation crates. Why not grass-fed beef and hormone-free chicken—or vegan meals, as the outfit Vegan Finance suggested in a public comment posted on SASB's website?

SASB Chair Jeffrey Hales tells us that SASB standards are based on real-world evidence and academic research on what information is "financially material" to investment decisions. He says a shift in social "values can have a financial impact on a company," and SASB says its definition of financial materiality is based on securities law.

But the SEC and FASB have adopted the Supreme Court precedent that information is financially material only if there is "a substantial likelihood that a reasonable investor would attach importance in determining whether to buy or sell the securities registered." In other words, information that would influence whether an investor buys or sells a stock.

FASB recently explained that "materiality judgments can properly be made only by those that understand the reporting entity's pertinent facts and circumstances. Whenever an authoritative body imposes materiality rules or standards, it is substituting generalized collective judgments for specific individual judgments, and there is no reason to suppose that the collective judgments always are superior."

SASB disagrees. It sets standards after consulting "advisory groups" comprised of businesses, investors, academics and other so-called "stakeholders"—like Vegan Finance. Some businesses support SASB's socially conscience goals. More than 100 companies including liberal punching bags like Philip Morris, Wells Fargo and Kinder Morgan say they follow SASB, though adherence is selective.

BlackRock says it doesn't follow SASB's requirement to disclose the liquidity of open-end mutual funds because the SEC has concluded doing so "may pose a significant risk of confusing and misleading investors." Bloomberg LP, believe it or not, won't disclose data breaches or "countries where core products or services are subject to government-required monitoring, blocking, content filtering, or censoring." Did someone say China?

This may explain why many companies say SASB's standards are laborious and irrelevant. The Association of American Railroads noted in a comment on SASB's website that industry-specific reporting requirements "would be redundant, burdensome, unnecessary, and potentially confusing because it may lead to overemphasis on immaterial matters." As JPMorgan pointed out, "issues that are material to one company may be slightly different for another, even within the same industry." Some companies might have to disclose proprietary information.

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All of this is supposedly voluntary, at least for now. But as Mr. Fink's orders to CEOs show, the goal is to shame and bully businesses to comply with SASB's social and political agenda. It's the business version of Mr. Bloomberg's Big Gulp soda ban while mayor of New York City.

SASB's ultimate goal is for the SEC to adopt its standards. SASB CEO Janine Guillot told us that the SEC should cite "SASB as useful guidance for corporations to meet existing obligations" to disclose financially material information. Businesses may soon need to start counting their cage-free eggs.