Sustainability Accounting Standards
Health care sector: health care delivery
What you need to know about the Health Care Standards for the health care delivery industry by the Sustainability Accounting Standards Board (SASB) and how EY can help
This thought leadership piece provides key details about the recently released SASB Health Care Standards and describes the services that EY can provide to companies in the medical equipment and supplies industry to assist with identifying and reporting on the material sustainability topics affecting their business. Additional thought leadership pieces focus on the standards for other sectors in the health care industry. For the latest pieces, please visit ey.com/us/sustainability.

- The Health Care Standards identify the sustainability topics that are material to the health care delivery industry and also provide guidance on accounting metrics that can be utilized by this industry with an aim of achieving standardized reporting. Specifically, the Health Care Standards provide the following information:
  - Disclosure guidance: the sustainability topics that SASB has identified as being material to the health care delivery industry
  - Accounting standards: standardized metrics to account for the material sustainability topics specified in the disclosure guidance when reporting to the United States Securities and Exchange Commission (SEC) in annual Form 10-K filings (Form 20-F for international companies) and other relevant periodic filings (Form 10-Q, Form 8-K, Form S-1 and Form S-3), as applicable

- The development process for the standards involved vetting of the material sustainability topics and metrics by an industry working group (IWG), which, as stated by SASB, consisted of “publicly traded companies with more than $800 billion market cap, and investment firms with more than $952 billion in assets under management.”

- The standards are currently provisional in nature until ratification by an external consensus body, which is set to occur in 2015 after SASB releases all of its standards that are currently in the pipeline (SASB plans on releasing nine additional sector standards).

- It is not mandatory for companies in the health care delivery industry to disclose information on the material sustainability topics affecting them in conformity with the SASB standards.

- The standards have been designed in alignment with the SEC’s definition of materiality, and the SEC has been briefed about the standards during their development process.

- The following are the sustainability topics material to the health care delivery industry, as identified by SASB:
  - Quality of care and patient satisfaction
  - Access for low income patients
  - Employee recruitment, development, and retention
  - Pricing and billing transparency
  - Energy and waste efficiency
  - Climate change impacts on human health and infrastructure
  - Fraud and unnecessary procedures
  - Patient privacy and electronic health records
Introduction to SASB

SASB, a 501(c) non-profit organization established in 2011 and accredited for the production of sustainability accounting standards by the American National Standards Institute (ANSI) released its Health Care Standards on 31 July 2013. SASB’s goal is to design common standards for sustainability disclosures that will ultimately be included in mandatory filings to the SEC. The Health Care Standards are the first set of standards released by SASB, and the organization is in the process of developing an additional nine standards comprising more than 80 industries.1

Standards development process

Stage 1 — sector research: research is conducted on the environmental, social and governance (ESG) issues affecting the sector for which the standards are being developed. Information gathered from the research process is compiled into industry briefs.2

Stage 2 — vetting process: the initial set of issues and metrics compiled based on the research conducted in stage 1 undergoes a vetting process by the IWG,2 which for the Health Care Standards, according to SASB consisted of “publicly traded companies with a more than $800 billion market cap, and investment firms with more than $952 billion in assets under management.”

Stage 3 — standards development: the vetted issues and metrics are published as “public notice of material issues” and are reviewed by the Standards Council,3 which also reviews the standards development process leading up to that stage. At this point, the SEC is briefed about the standards under development.

Stage 4 — public comment: the standards are released for public comment after which it undergoes further review by the Standards Council and is then made publically available.
Overview of the Health Care Standards

The SASB Health Care Standards provide the following information:

- **Disclosure guidance**: the material sustainability topics relevant to the industry under consideration.
- **Accounting standards**: standardized metrics to account for the material sustainability topics specified in the disclosure guidance.

*Please refer to the table on pages 5-7 for the accounting metrics for the health care delivery industry.*

Within the Form 10-K, the standards recommend that companies disclose information on their material sustainability topics in the “Management’s Discussion and Analysis” section under a separate subsection titled “Sustainability Accounting Standards Disclosure.” According to SASB, other sections of the Form 10-K that can be leveraged for disclosure include the sections on the company’s description of business, legal proceedings, risk factors affecting investment in the company and the sections containing additional information related to materiality as mandated by the Securities Act Rule 408 and Exchange Rule 12b-20.

With respect to the scope of disclosure, SASB recommends that companies disclose information on material sustainability topics affecting itself and entities over which it has controlling interest. Further, SASB also recommends, “that for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest” and “information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that such registrant considers the information necessary for investors to understand its performance with respect to sustainability issues.”

A number of recommendations and mandatory requirements (to be followed for a company to claim alignment with the SASB standards) related to reporting and assurance are also provided in the SASB Health Care Standards.4

Users of the Health Care Standards

The Health Care Standards are mainly aimed to be utilized by publicly traded companies when filing their Form 10-K, or Form 20-F in the case of international companies. Health care companies can also utilize the Health Care Standards to guide disclosure on materiality in their Form 10-Q, Form 8-K, Form S-1 and Form S-3.

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4 SASB provides guidance on the normalization of accounting metrics, reporting in International System of Units (SI Units), disclosure on uncertainty, disclosure on the nature and basis of any estimates used, the timing of disclosure and the use of a high level of assurance, among other topics.
Provisional and voluntary nature of the Health Care Standards

It should be noted that the Health Care Standards are provisional in nature and according to SASB will remain provisional until "the full set of standards (for 80+ industries) is reviewed and ratified by an external consensus body, such as that required by the American National Standards Institute (ANSI)." The full set of standards is scheduled to be ratified in 2015.

It is not mandatory for companies in the health care sector to disclose information on their material sustainability topics in alignment with the Health Care Standards, and the standards themselves have not been endorsed by the SEC. However, the Health Care Standards have been designed in alignment with the requirements specified by the SEC for the materiality content in its mandatory filings.

Next steps

SASB will be organizing a corporate pilot program for the Health Care Standards in the first quarter of 2014. Companies that volunteer to be a part of the corporate pilot program will have subject matter experts assisting them with the identification and reporting of material sustainability topics specific to their business. Additional information about the Health Care Standards pilot program will be provided by SASB in September.

SASB definition of materiality: SASB adheres to the U.S. Supreme Court definition of materiality, defined as "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." [U.S. Supreme Court definition, CTSC Indus. V. Northway, Inc., 426 U.S. 438 (1976) and Basic v. Levinson, 485 U.S. 224 (1988)]

SASB definition of sustainability: "In the context of SASB standards, sustainability refers to environmental, social and governance (ESG) factors that have the potential to affect corporations' long-term value creation and are in the interest of investors and the public."
Description and accounting metrics for material sustainability topics in the health care delivery industry

SASB identifies the following sustainability topics as being material to the health care delivery industry:

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<th>Material sustainability topics</th>
<th>Description</th>
<th>Accounting metrics</th>
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| **Quality of Care and Patient Satisfaction** | The ability to deliver quality care and ensure patient satisfaction is an essential value driver for health care delivery companies. The link between performance in this area and shareholder value has been strengthened by the Patient Protection and Affordable Care Act (PPACA). Included in the Act’s provisions is the establishment of the Hospital Value-Based Purchasing Program, which provides incentive payments, based on performance on a series of health care quality measures. Further, hospitals will be subject to reductions in inpatient payments for excessive readmissions and hospital-acquired conditions. | • Hospital Values Based Purchasing Total Performance score, broken down by Clinical Process Domain score, Outcome Domain score, and Patient Experience Domain score.  
• Number of Serious Reportable Events (SREs) as defined by the National Quality Forum.  
• Health care-acquired infections, as defined by the CDC’s National Healthcare Safety Network, for: (1) Central Line-associated Bloodstream Infections (CLABSI); (2) Surgical Site Infections (SSI); (3) Catheter-associated Urinary Tract Infections (CAUTI).  
• Excess readmission ratio for pneumonia, acute myocardial infarction, and heart failure, as defined by the Centers for Medicare & Medicaid Services (CMS). Readmissions Payment Adjustment Amount as part of the Hospital Readmissions Reduction Program. |
| **Access for Low-Income Patients** | Although the Patient Protection and Affordable Care Act (PPACA) will increase the number of insured individuals, the Congressional Budget Office estimates that 30 million nonelderly people will remain uninsured in 2023. The challenges associated with serving uninsured and low-income patients will be further compounded by reductions in Disproportionate Share Hospital (DSH) payments beginning in fiscal year 2014. Disclosure on efforts to extend services to uninsured populations and DSH allocations will allow shareholders to understand how companies in this industry are able to provide access to low-income patients and how serving the uninsured affects the business model. | • Description of strategy to manage the mix of patient insurance status (i.e., private insurance, government insurance, and uninsured), including a description of alternative pricing mechanisms or programs for the uninsured.  
• Amount of Medicare Disproportionate Share Hospital (DSH) adjustment payments received. |
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| **Employee Recruitment, Development and Retention** | Health care delivery companies will face increased competition for physicians as the Patient Protection and Affordable Care Act increases demand and intensifies current and future shortages. The ongoing ability to recruit, develop, and retain health care practitioners is critical to success in this industry and disclosure on related performance indicators allows shareholders to understand how companies are managing a critical human capital factor in the health care delivery industry. | • Employee turnover by voluntary and involuntary for: (1) physicians, (2) non-physician health care practitioners, and (3) all others.  
• Description of talent recruitment and retention efforts for health care practitioners, such as mentorship programs, flexible scheduling, and leadership development initiatives. Where applicable, participation or utilization rates for each type of effort. |
| **Pricing and Billing Transparency** | Currently more than half of all states require that hospitals report pricing information, and legislative trends suggest that a federal mandate is possible. Current and impending legislation, coupled with increased emphasis on health care cost containment, is likely to enhance scrutiny on the pricing and billing practices of companies in this industry. Firms that are able to achieve compliance and transparent pricing structures will be better positioned to protect shareholder value. | • Description of policies or initiatives to ensure that patients are adequately informed about price before undergoing a procedure.  
• Description of how pricing information for services (including inpatient and outpatient) is made publicly available, including the number of the registrant’s 25 most common services for which pricing information is publicly available, and the percentage of total services performed (by volume) that these represent. |
| **Energy and Waste Efficiency** | The health care delivery industry faces significant costs associated with energy use and waste disposal. The Environmental Protection Agency’s Energy Star Program estimates that hospitals spend $8.8 billion on energy annually, accounting for 1–3 percent of a hospital’s operating budget. Improved energy management and effective waste reduction strategies can lower operating costs and enhance shareholder value. | • Total annual energy consumed (gigajoules) and percentage renewable (e.g., wind, biomass, solar).  
• Total weight of regulated medical waste generation (as defined by the Medical Waste Tracking Act of 1988) and total weight by disposition (e.g., on-site incineration, landfill, treatment/storage/disposal facility, etc.).  
• Total weight of pharmaceutical waste generation and total weight by disposition (e.g., on-site incineration, landfill, Treatment/Storage/Disposal Facility, etc.). Break down by: (1) hazardous waste and (2) nonhazardous (solid) waste. |
<p>| <strong>Climate Change Impacts on Human Health and Infrastructure</strong> | An increase in extreme weather events associated with climate change could present physical threats to health care delivery facilities and operations and create challenges in serving affected populations. In addition, these events coupled with the potential spread of infectious diseases, and food and water scarcity, are likely to present material implications for the health care delivery industry. Companies should subsequently disclose strategies to protect value in light of these challenges. | • Description of the strategy to address the effects of climate change on business operations, physical infrastructure, and facility design. Discussion of specific risks (such as physical risks) presented by changes in the frequency and intensity of extreme weather events and changes to the morbidity and mortality of illnesses and diseases. |</p>
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<td><strong>Fraud and Unnecessary Procedures</strong></td>
<td>Health care delivery companies are subject to significant fines and penalties under the Federal False Claims Act and similar state laws. Entities that receive at least $5 million annually in Medicaid payments must have written policies for all employees and contractors regarding false claims, false statements, and whistleblower protections under these laws. The ability to ensure compliance in this area is likely to have material implications for health delivery companies.</td>
<td>• Description of legal and regulatory fines and settlements associated with Medicare and Medicaid Fraud under the False Claims Act. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.</td>
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| **Patient Privacy and Electronic Health Records** | The Health Insurance Portability and Accountability Act (HIPAA) requires health care providers to establish administrative, physical, and technical safeguards to protect the integrity, confidentiality, and availability of patient health information. Failure to comply with these regulations can lead to civil and criminal penalties, while the American Recovery and Reinvestment Act (ARRA) has provided for enhanced enforcement and increased fines. The ARRA also established financial incentives for the meaningful use of electronic health records, as well as reduced Medicare payments for companies that fail to demonstrate meaningful use. Disclosure on HIPAA violations and electronic health records adoption will allow shareholders to monitor performance in these areas. | • Percentage of patient records that are electronic medical records (EMR) or electronic health records (EHR) meeting the Centers for Medicare and Medicaid Services (CMS) “meaningful use” requirements.  
• Description of legal and regulatory fines and settlements associated with Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events. |

*Table consolidated from SASB Health Care Standards for the health care delivery industry*
How EY can help

The following is a list of services that EY can provide to companies in the health care delivery industry to guide them through the process of identifying sustainability topics material to their business, reporting on these topics and addressing the potential risks faced by their business:

- **Industry benchmarking:** EY’s Climate Change and Sustainability Services (CCaSS) team can provide key insights on sustainability best practices in the health care delivery industry based on research and industry experience, including benchmarking the 8 material topics in the Health Care Standards.

- **Gap assessment and recommendations:** CCaSS can provide a gap assessment against industry best practices and current sustainability initiatives in place, with an aim to identify gaps for improvement and provide recommendations on addressing these gaps.

- **Identification of material sustainability topics in alignment with the requirements specified in the SASB Health Care Standards:** CCaSS can assist companies in the health care delivery industry seeking to identify the material sustainability topics specific to them. We can assist companies with evaluating whether reporting in their annual or periodic filings to the SEC in alignment with the guidance provided in the Health Care Standards is right for them.

- **Environment, health and safety (EHS) assessments:** we can assist clients with managing EHS and sustainability risks, identifying and generating cost savings and implementing process improvements.

- **Assurance readiness:** SASB’s hope is that registrants will report on sustainability metrics with the same rigor, accuracy and responsibility as all other information in the SEC filings. SASB is recommending that registrants use a higher level of assurance (attestation), such as the American Institute of Certified Public Accountants’ AT Section 701. We can assist clients on their assurance journey by first providing assurance readiness over individual material sustainability topics identified by companies in the health care delivery industry to evaluate the associated processes and controls and in doing so increase internal confidence and reduce the risk of misstatement.

- **Assurance:** when clients are ready for independent assurance, we can also provide assurance over individual material sustainability topics identified by companies in the health care delivery industry to add an additional level of credibility to reports that resonate with investors, non-governmental organizations (NGOs) and other stakeholders.
Our point of view

Some of our published insights include:

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Sustainability's evolving role in business has created new risks. See how the COSO Framework can help your organization's risk management.

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What you need to know about the new disclosure and reporting requirements and how EY can help

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