Cornerstone Capital Group

July 21, 2016

Via Email

Mr. Brent J. Fields
Secretary Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-1090

Re: Business and Financial Disclosure Required by Regulation S-K (File No. S7-06- 16)

Dear Mr. Secretary,

Cornerstone Capital Inc. (dba Cornerstone Capital Group ["Cornerstone"]) appreciates and welcomes the opportunity to submit comments in response to the Commission's concept release "Business and Financial Disclosure Required by Regulation S-K" ("the Release").

Founded in 2013, Cornerstone is a financial services firm based in New York. The mission of the firm is to apply the principles of sustainable finance across the capital markets and enhance investment processes through transparency and collaboration. In offering investment advisory, investment banking and corporate advisory services, Cornerstone works with asset owners, corporations and financial institutions to promote new research in the field of Environmental, Social and Governance (ESG) analysis, and facilitate capital introductions for organizations around the world engaged in sustainable business practices.

Because our clients are long-term investors, we have a strong interest in the quality of corporate disclosures, and how well they enable us to evaluate risks and make decisions that will affect the long-term health of our clients' portfolios. We believe that although current disclosure standards require companies to report on all material issues, companies currently have insufficient guidance regarding disclosure of long-term issues, particularly those related to ESG concerns.

Voluntary sustainability reports separate from financial disclosures have been commonplace for several years. Standards for voluntary reporting have risen considerably, and these reports are valuable to many stakeholders such as employees, communities and customers. Yet current ESG disclosures fail the test of quality, comparability, consistency and materiality that would make them useful to investor decision-making.

Our comments reflect our views on how ESG disclosures could be incorporated into corporate disclosures in a manner consistent with existing disclosure standards and expectations.

III. B. Nature of Disclosure Requirements

Materiality

We concur with the standard of materiality as the Commission has traditionally interpreted it. However, we believe that current disclosure standards tend to emphasize short-term, tangible factors that may not fully capture the information that may be relevant to the decision-making of long-term investors.

In particular, a class of investors called “universal owners” may have information needs that are not satisfied by current disclosures. Universal owners are large asset owners, usually pension funds, insurance companies or sovereign wealth funds, who because of their size and the nature of their liabilities tend to hold all or most companies in the market. (Smaller institutions that are long-term stewards of capital and are at least partially passively invested may also share some interests with universal owners.)

Distinct from some investors, universal owners are less dependent on the short-term performance of companies than on the long-term performance of the market as a whole. These characteristics have implications for what kinds of information universal owners may consider material. Universal owners are limited in their ability to optimize return or manage risk solely through trading, and as a result may see themselves as responsible for holding management and boards accountable through “active ownership.” Part of the benefit of engagement is that it allows shareholders to address issues that may be material for long-term company performance but are unlikely to drive short-term price movements. Proxy voting is a primary tool of active ownership, but many such investors also consider engagement in dialogue with companies to be an important complement to proxy voting. Many companies now routinely reach out to shareholders on matters that are or could be the subject of proxy votes.

While current materiality standards include information relevant for voting, standards should clarify that “reasonable” investors may expect information relevant for both voting and engagement.

Because of their exposure to the market, universal owners are also concerned about the potential systemic risks posed by certain corporate activities. We note, for example, that while the financial crisis of 2007-2008 originated in the banking sector, it eventually affected the performance of companies in every industry. Also, the Deepwater Horizon oil spill affected not only the share prices of BP, Transocean and others directly involved, but also other companies in the same sector that faced additional regulatory scrutiny and a temporary deep water drilling ban as a result of the crisis.

Because environmental and social issues reflect the impact of the company on markets, many “reasonable” universal owners consider some of this information material, particularly if it also has the potential to drive company performance over the long term.

We recommend that the Commission recognize the potential impact of systemic issues on portfolio performance through standards of what constitutes material information.

Principles-Based vs. Rules-Based Disclosure

An approach to disclosure that places greater emphasis on longer term creates uncertainty in reporting, because the factors that drive long-term performance may differ across industries and companies. We therefore support movement towards a more principles-based approach to disclosure that places responsibility on management for exercising judgment and establishing which issues matter for company performance. Principles-based disclosures avoid "check the box" approaches common to rules-based systems and can be tailored to specific company circumstances.

Principles-based disclosures have the disadvantages of lacking clarity and consistency across companies as well as creating opportunities for management to conceal unfavorable information. However, rules-based systems are no guarantee against misleading disclosures. We believe that a balanced "comply or explain" approach, combined with explicit standards which are voluntary but understood as best practice, will encourage meaningful disclosures. This approach will allow companies the flexibility to tailor disclosures to their own individual circumstances while encouraging enough consistency in reporting to allow investors to compare information across companies.

IV. F. Sustainability

According to some estimates, the value of intangible assets makes up on average 80% of corporate assets. We believe that material sustainability factors are an important component of both a company's intangible assets and its market value. We also have observed in our research that sustainability factors are particularly useful in determining the long term (>3 years) component of market value and also the likelihood of an event, such as an industrial accident or accounting scandal, which can materially impact share price in the immediate term. Sustainability reporting could therefore fill gaps in current disclosure requirements, which mostly emphasize tangible factors (such as property, plant and equipment) and the intermediate time frame (one quarter to one year).

"Sustainability" is an umbrella term for a vast array of issues relating to the impact of the company's activities on human society and the natural environment, including climate change, diversity, human rights and resource scarcity. Some sustainability issues may be of great concern to stakeholders such as consumers, employees and communities, but only a subset are of importance to investors. While some of these material issues will be relevant for all companies (e.g. human capital, board diversity), many will vary in importance from company to company and industry to industry (e.g. safety, cybersecurity, labor rights).

For this reason, we believe that "one size fits all" disclosure requirements will fail to provide an accurate picture of the company for investors, and will impose unreasonable cost and time burdens on companies. Instead, we recommend that the Commission consider adopting industry-specific, principles-based disclosure standards for companies. Currently, numerous bodies are developing these standards, including the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), CDP (formerly the Carbon Disclosure Project) and the International Integrated Reporting Council (IIRC).

At this time, we do not endorse any one of these standards over the others, believing that each has its own merits and limitations. We recommend that companies be allowed flexibility in using these standards to present an accurate narrative that makes clear how the company's approach to sustainability reflects its business circumstances and strategy. We believe that this approach will be clear and meaningful as well as comparable across companies, and will also allow a unified and more mature set of best practices to emerge over time.

Many companies now produce stand-alone sustainability reports. We do not believe that these disclosures are a meaningful substitute for reporting that is integrated into financial disclosures. The audience for "corporate social responsibility" reporting comprises a range of stakeholders other than investors, and their needs may not align with the needs of investors. Moreover, there are no accepted standards for the formats, key performance measures or assurances of the quality of these reports.

We recommend that the Commission integrate sustainability reporting into three sections of disclosures: the Company Business Information, the Management Discussion and Analysis (MD&A), and the Risk disclosures.

IV. A. Core Company Business Information

Sustainability concerns should form a component of the narrative description of the business, especially the ways in which these issues inform the overall long-term strategy of the company. Disclosure should clearly link business strategy to the risks identified separately, to make clear how the company is managing the high-priority risks that it faces.

As discussed above, we believe that the proper approach would not be to expand significantly on the enumerated line items already in place, but to allow companies to determine the appropriate indicators for their particular business, as informed by the external standards and best practices. Given this flexibility, it is also important that companies explain the process by which they determined which ESG issues are relevant and how these are linked to overall business strategy.

We also believe that it would be useful for companies to include general information about the overall industry structure in their business description. Identification of sustainability issues that are common to the entire industry would also be useful to investors and perhaps help to avoid boilerplate disclosures. Some companies consider certain sustainability concerns to be "pre-competitive," meaning that companies have a common interest in managing and addressing them (for example, community opposition to hydraulic fracturing might be understood to be a "pre-competitive" issue for the oil & gas industry). This information is useful to investors in understanding management's perspective on the context within which the business operates.

Although we believe that sustainability information should be industry specific, we do believe that a small subset of issues are common to all industries.

First, we believe that human capital is a key intangible factor for all companies. We believe that the following information would provide investors with a richer perspective on the company's management of human capital:

- Number of employees
- Total payroll
- Turnover

We also believe that additional diversity information would be useful. In particular, we believe that companies should provide information about the diversity of the board of directors that goes beyond current disclosure requirements to include a description that includes gender and ethnic diversity, by including any other factor the board considers relevant for the diversity of its composition.

Second, we believe that all companies should provide transparency about political contributions, including a description of how decisions about contributions are made, as well as all direct and indirect expenditures for political campaigns, including donations to third party groups that use the funds for political purposes.

IV. B. Company Performance, Financial Information and Future Prospects

We observe briefly that the MD&A can be used to complement core company business information with a discussion of how stakeholder relations were impacted over the last year. The MD&A section may be the appropriate location for qualitative and quantitative results of key performance indicators, while the core business information may be a more appropriate place to discuss the process for how decisions regarding sustainability are made.

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IV. C. Risk and Risk Management

We recommend that the SEC add a category of "stakeholder risk" to the list of risks that companies should identify. Stakeholder risk relates to the impact that company activities have on those with a formal or informal relationship with the company, such as employees, customers and communities. A company's relationships with these stakeholders have an impact on its ability to deliver value for shareholders, and a decline or improvement in these relationships may be material for investors over the long-term, even if there is no immediate effect on profitability.

We also suggest that companies identify the risks that are priorities for the company. In general, risks are measured by their likelihood of coming to pass, and their potential impact if they do come to pass. While the most concerning risks are those that are both likely and high-impact, the financial crisis shows that low-probability, high impact risks may also be important for investors. We also suggest that companies be allowed to choose to omit low probability, low impact risks at their discretion.

We appreciate the opportunity to respond to this concept release, and appreciate the Commission's interest in these important issues. If you would like to speak to us directly about our views, please contact me at 212-874-7400 x121 or at john.wilson@cornerstonecapinc.com.

Sincerely,

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Cornerstone Capital Inc.