



PROPOSED CHANGES TO PROVISIONAL STANDARDS

BASIS FOR CONCLUSIONS

Transportation Sector

Automobiles

Auto Parts

Car Rental & Leasing

Airlines

Air Freight & Logistics

Marine Transportation

Cruise Lines

Rail Transportation

Road Transportation

Prepared by the
Sustainability Accounting Standards Board®

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Introduction

Robust and resilient sustainability accounting standards must not only address the sustainability-related risks and opportunities faced by reporting organizations, they must themselves be sustainable. That is, they must be designed to continually and systematically adapt to an ever-changing world. For this reason, the SASB engages in ongoing technical research and market consultation to ensure the maintenance of decision-useful, cost-effective standards. As changes occur in an industry's competitive context, in the broader sustainability landscape, or in the interests of the reasonable investor, this approach—bolstered by rigorous analysis and bottom-up, market-based input—is key to maintaining a set of standards that evolve to support market needs.

When potentially necessary or appropriate updates to the standards are identified by the SASB's own research or through engagement with corporate issuers, investors, or other subject matter experts, those items may be added to the SASB's Research Agenda or future Technical Agendas, indicating that such items are under review. For such items, the SASB staff prepares proposed updates intended to both incorporate its findings and to satisfy the essential concepts of sustainability accounting set forth in the [SASB Conceptual Framework](#). These updates are then proposed to the SASB Standards Board for review and approval.

The Basis for Conclusions for the proposed changes to provisional standards details the SASB staff's considerations in developing the updates included in the published 2017 Technical Agenda, helping users to better understand the updates and the reasoning behind them. The Basis for Conclusions go hand-in hand with the Exposure Draft of the standard, and highlight the specific proposed updates and associated changes per industry per sector. An explanation and rationale for each change is included herein.

About the SASB

Established in 2011, the Sustainability Accounting Standards Board (SASB) is the independent standards-setting organization for sustainability accounting standards that meet the needs of investors by fostering high-quality disclosure of material sustainability information. The standards focus on known trends and uncertainties that are reasonably likely to affect the financial condition or operating performance of a company and therefore would be required to be disclosed under Regulation S-K. The standards are designed to improve the effectiveness and comparability of corporate disclosure on material environmental, social, and governance (ESG) factors in SEC filings such as Forms 8-K, 10-K, 20-F, and 40-F. Based on a rigorous process that includes evidence-based research and broad, balanced stakeholder participation, the SASB currently maintains provisional standards for 79 industries across 11 sectors.¹

The SASB Standards Board, seated in 2017, comprises nine members, representing a diversity of key perspectives, including standards-setting, corporate reporting, and investing and financial analysis. The Standards Board is responsible for guiding the standard-setting process and for the quality of its outcomes. The SASB operates in accordance with its primary governance documents, the [SASB Rules of Procedure](#) and [SASB Conceptual Framework](#). The [SASB Conceptual Framework](#) sets out the basic concepts, principles, definitions, and objectives that guide the SASB in its approach to setting standards for sustainability-related matters. The [SASB Rules of Procedure](#) establish the

¹ Where traditional industry classification systems group companies by sources of revenue, the SASB's approach considers the resource intensity of firms, and groups industries with like sustainability characteristics, including risks and opportunities, within SASB's Sustainable Industry Classification System™ (SICS™) found at: <https://www.sasb.org/sics/>. SASB has proposed a number of amendments to SICS, and the revised classification system will go into effect when the standards are codified in early 2018. [Proposed changes](#) to SICS are on SASB's website and the Updates proposed herein are based on the amended classification.

processes and practices followed by the SASB in its standard-setting activities, and in its oversight of related work undertaken by the SASB staff. The following fundamental tenets underpin the SASB's efforts:

- **Materiality-Focused:** SASB standards address the sustainability topics that are reasonably likely to have material impacts on the financial condition or operating performance of companies in an industry. In identifying sustainability topics that are reasonably likely to have material impacts, the SASB applies the definition of "materiality" established under the U.S. securities laws.² For more information, see the staff bulletin [SASB's Approach to Materiality for the Purpose of Standards Development](#).
- **Evidence-Based:** The SASB takes an evidence-based approach to assess whether sustainability topics are likely to be of interest to the reasonable investor, and whether they are reasonably likely to have material impacts on the financial condition or operating performance of a company. Evidence is drawn from both internal research and from credible external sources, such as financial filings, earnings calls, databases of U.S. government agencies, industry research products, and academic studies, among others.
- **Market-Informed:** The SASB standards are shaped in large part by feedback from participants in the capital markets—primarily corporate issuers and mainstream investors. The SASB actively solicits input and carefully weighs all stakeholder perspectives in considering which aspects of a sustainability topic warrant standardized disclosure and in determining how to frame, describe, and measure those aspects for the purposes of standardization. The SASB's consultation efforts have involved engagement through Industry Working Groups over a four-year period with more than 2,800 experts, representing \$23.4 trillion in assets under management and more than \$11 trillion market capitalization. Recently, deep consultation on the provisional standards included 141 companies (along with 19 industry associations, representing hundreds of companies) and 38 institutional investors (who consulted on 271 industries). Additionally, the SASB's Investor Advisory Group (IAG) comprises 28 organizations, representing more than \$20 trillion in assets under management, including BlackRock, California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), State Street Global Advisors, and others. This market feedback has played a significant role in shaping the SASB's 2017 Technical Agenda.

In its guidance and oversight role, the SASB operates in a sector committee structure, which assigns a minimum of three Standards Board members to each sector for review, discussion, and liaising with staff. The committees are structured as follows:

² TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976).

SASB Sector Committees

<p>Health Care <u>Industries:</u> Biotechnology & Pharmaceuticals; Medical Equipment & Supplies; Health Care Delivery; Health Care Distributors; Managed Care; Drug Retailers <u>Committee Members:</u> Lloyd Kurtz*, Bob Hirth, Jean Rogers</p>	<p>Renewable Resources & Alternative Energy <u>Industries:</u> Biofuels; Solar Technology & Project Developers; Wind Technology & Project Developers; Fuel Cells & Industrial Batteries; Forestry Management; Pulp & Paper Products <u>Committee Members:</u> Stephanie Tang*, Jeff Hales, Kurt Kuehn</p>	<p>Food & Beverage (formerly Consumption I) <u>Industries:</u> Agricultural Products; Meat, Poultry, & Dairy; Processed Foods; Non-Alcoholic Beverages; Alcoholic Beverages; Tobacco; Food Retailers & Distributors; Restaurants <u>Committee Members:</u> Stephanie Tang*, Elizabeth Seeger, Lloyd Kurtz</p>
<p>Financials <u>Industries:</u> Commercial Banks; Investment Banking & Brokerage; Asset Management & Custody Activities; Consumer Finance; Mortgage Finance; Security & Commodity Exchanges; Insurance <u>Committee Members:</u> Jeff Hales*, Dan Goelzer, Verity Chegar</p>	<p>Transportation <u>Industries:</u> Automobiles; Auto Parts; Car Rental & Leasing; Airlines; Air Freight & Logistics; Marine Transportation; Cruise Lines; Rail Transportation; Road Transportation <u>Committee Members:</u> Kurt Kuehn*, Jean Rogers, Jeff Hales</p>	<p>Consumer Goods (formerly Consumption II) <u>Industries:</u> Apparel, Accessories & Footwear; Appliance Manufacturing; Household & Personal Products; Building Products & Furnishings; Toys & Sporting Goods; Multiline and Specialty Retailers & Distributors; E-commerce <u>Committee Members:</u> Elizabeth Seeger*, Stephanie Tang, Kurt Kuehn</p>
<p>Technology & Communications <u>Industries:</u> Electronic Manufacturing Services & Original Design Manufacturing; Software & IT Services; Hardware; Semiconductors; Telecommunication Services; Internet Media & Services <u>Committee Members:</u> Bob Hirth*, Lloyd Kurtz, Verity Chegar</p>	<p>Services <u>Industries:</u> Education; Professional & Commercial Services; Hotels & Lodging; Casinos & Gaming; Leisure Facilities; Advertising & Marketing; Media & Entertainment <u>Committee Members:</u> Dan Goelzer*, Jeff Hales, Bob Hirth</p>	<p>Infrastructure <u>Industries:</u> Electric Utilities & Power Generators; Gas Utilities & Distributors; Water Utilities & Services; Waste Management; Engineering & Construction Services; Home Builders; Real Estate; Real Estate Services <u>Committee Members:</u> Jean Rogers*, Kurt Kuehn, Verity Chegar</p>
<p>Extractives & Minerals Processing (formerly Non-Renewable Resources) <u>Industries:</u> Oil & Gas - Exploration & Production; Oil & Gas – Midstream; Oil & Gas - Refining & Marketing; Oil & Gas – Services; Coal Operations; Iron & Steel Producers; Metals & Mining; Construction Materials <u>Committee Members:</u> Verity Chegar*, Elizabeth Seeger, Bob Hirth</p>	<p>Resource Transformation <u>Industries:</u> Chemicals; Aerospace & Defense; Electrical & Electronic Equipment; Industrial Machinery & Goods; Containers & Packaging <u>Committee Members:</u> Lloyd Kurtz*, Dan Goelzer, Jean Rogers</p>	<p style="text-align: right;">* Sector chair</p>

The Standards Board sector committees have reviewed proposed changes to the provisional standards, based on the Technical Agenda, in anticipation of ratifying the standards in Q1 2018.

Commenting

The SASB has voted to release the Proposed Changes to Provisional Standards: Basis for Conclusions compendium and the Exposure Drafts of the standards, thus initiating a 90-day Public Comment Period. The Public Comment Period will occur from October 2, 2017, to December 31, 2017. During this time, the public may submit comments to the SASB on the proposed updates to the standards. Public comments will be evaluated in the process to ratify the standards, expected in early 2018. Further guidance on the Public Comment Period, including instructions to submit comments and accessing the Basis for Conclusions and Exposure Drafts, is available at: <http://www.sasb.org/public-comment>. Other questions on the SASB or the Public Comment Period may be sent to: info@sasb.org.

Proposed Changes to Provisional Standards: Basis for Conclusion Overview

The following provides a detailed description of—and rationale for—each change proposed to the SASB Provisional Standard for the industries within the Transportation sector. Changes may be related to content, including adding, removing, or reframing a topic or adding, removing, or revising a metric. Changes may also be technical in nature, including updates to a metric's scope, definitions, third-party references, or harmonization across SASB's standards and/or with external initiatives. Typographical and other editorial changes have not been included below but can be provided to interested parties or reviewed in the redline Public Comment Standard.

Guidance Used to Determine Proposed Updates

In preparing its proposed updates, the SASB is guided by the Fundamental Tenets of the SASB Approach to Standards-Setting, which are designed to better achieve the Core Objectives of the SASB, as established by the *SASB Conceptual Framework*.

Topic-Level Proposed Updates

Proposed updates that relate to the addition, removal, or reframing of a topic are based on the following *Principles for Topic Selection* ("Principles"), as established by the *SASB Conceptual Framework*:

- **Potential to affect corporate value.** Through research and stakeholder input, the SASB identifies topics that can or do affect operational and financial performance through three channels of impact: (1) revenues and costs, (2) assets and liabilities, and (3) cost of capital or risk profile.
- **Of interest to investors.** The SASB addresses issues likely to be of interest to investors by assessing whether a topic emerges from the "total mix" of information available through the existence of, or potential for, impacts on five factors: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impacts; and (5) opportunities for innovation.
- **Relevant across an industry.** The SASB addresses topics that are systemic to an industry and/or represent risks and opportunities unique to the industry and which, therefore, are likely to apply to many companies within the industry.

- **Actionable by companies.** The SASB assesses whether broad sustainability trends can be translated into industry-specific topics that are within the control or influence of individual companies.
- **Reflective of stakeholder (investor and issuer) consensus.** The SASB considers whether there is consensus among issuers and investors that each disclosure topic is reasonably likely to constitute material information for most companies in the industry.

Metric-Level Proposed Updates

Proposed updates that relate to the addition, removal, or revision of a metric are based on the following Criteria for Accounting Metrics (“Criteria”), as established by the *SASB Conceptual Framework*:

- **Fair Representation:** A metric adequately and accurately describes performance related to the aspect of the disclosure topic it is intended to address, or is a proxy for performance on that aspect of the disclosure topic.
- **Useful:** A metric will provide useful information to companies in managing operational performance on the associated topic and to investors in performing financial analysis.
- **Applicable:** Metrics are based on definitions, principles, and methodologies that are applicable to most companies in the industry based on their typical operating context.
- **Comparable:** Metrics will yield primarily (a) quantitative data that allow for peer-to-peer benchmarking within the industry and year-on-year benchmarking for an issuer, but also (b) qualitative information that facilitates comparison of disclosure.
- **Complete:** Individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic.
- **Verifiable:** Metrics are capable of supporting effective internal controls for the purposes of data verification and assurance.
- **Aligned:** Metrics are based on those already in use by issuers or are derived from standards, definitions, and concepts already in use by issuers, governments, industry associations, and others
- **Neutral:** Metrics are free from bias and value judgment on behalf of the SASB, so that they yield an objective disclosure of performance that investors can use regardless of their worldview or outlook.
- **Distributive:** Metrics are designed to yield a discernable range of data for companies within an industry or across industries allowing users to differentiate performance on the topic or an aspect of the topic.

Technical-Protocol Proposed Updates

Proposed updates that relate to the revision of technical protocols are based on the following attributes, designed to enable the technical protocols to serve as the basis for “suitable criteria,” as defined by the PCAOB’s AT Section 101³ and as referenced in the *SASB Conceptual Framework*:

- **Objectivity:** Criteria should be free from bias.
- **Measurability:** Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.

³ PCAOB, [AT Section 101](#) – Attest Engagements

- **Completeness:** Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- **Relevance:** Criteria should be relevant to the subject matter.

Proposed Updates Related to Other Elements of Standardized Presentation

Each SASB standard is presented in a structured manner to ensure consistent application and to facilitate the cost-effective preparation of material, as well as decision-useful information. These core objectives guide the preparation of proposed changes that involve the revision of specific elements of standardized presentation. Such revisions—including those made to general disclosure guidance, industry descriptions, topic descriptions, and activity metrics—are based on the stated objectives and key characteristics of the element, as established by the *SASB Conceptual Framework*.



TRANSPORTATION SECTOR

AUTOMOBILES INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #TR0101

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #5-1 – **Industry:** Automobiles; **Topic Name:** Fuel Economy & Use-phase Emissions

2017 Technical Agenda Item #5-1 Description

The SASB is evaluating completeness, alignment, and clarity of metric TR0101-09.⁴

No Proposed Change

Based upon research, stakeholder consultation, and/or recommendations of the SASB, no changes related to Technical Agenda Item #5-1 have been proposed to the provisional standard at this time. Provisional metric TR0101-09 includes in its scope regional fuel economy standards for major automobile markets, with recommended disclosure according to the geographic segments a company currently reports in its financial reporting (i.e., determined by FASB Accounting Standards Codification Topic 280, Segment Reporting). Because regional fuel economy standards vary in approach (some regions use industry metrics that are based on fuel use per distance driven, others are based on carbon emissions per distance driven), and because there is now significant market share for automobiles related to alternative fuel, hybrid, or non-fuel vehicles, it is challenging to develop a metric that is comparable at a corporate level for companies that operate in global markets and offer a variety of drive trains and engine types. The SASB recognizes that metrics that are not comparable at the corporate level are not decision-useful for investors. The SASB welcomes input on fleet energy efficiency metrics that can characterize the relative performance of the vehicles being sold by a company across markets, and in consideration of different types of power trains for which “fuel” may be obsolete.

⁴ TR0101-09: Sales-weighted average passenger fleet fuel economy consumption or emissions by region

Proposed Update #5-2 – **Industry:** Automobiles; **Topic Name:** Fuel Economy & Use-phase Emissions

2017 Technical Agenda Item #5-2 Description

The SASB is evaluating the addition of a metric to improve the usefulness and completeness of the metrics associated with the topic.

Summary of Change – Add Metric

The SASB proposes adding a qualitative metric to the Fuel Economy & Use-phase Emissions topic, describing “Discussion of strategies and approach to managing fleet fuel economy and emissions risks and opportunities” to address how companies are positioned to improve fuel economy and reduce emissions from passenger vehicles and light trucks.

Adherence to Criteria for Accounting Metrics

The provisional SASB Automobiles industry standard includes a topic on Fuel Economy & Use-phase Emissions of vehicles, which addresses the management of emissions, of both greenhouse gases (GHGs) and air pollutants, and fuel economy by auto manufacturers to meet regulatory standards and address consumer trends. The two associated quantitative metrics on fleet fuel economy and the number of zero emission vehicles (ZEVs) and partial zero emission vehicles (PZEVs) sold provide an indication of how well automakers are positioned to serve increasing consumer demand for fuel-efficient and alternative fuel vehicles, as well as their ability to leverage or mitigate the effect of regulatory quotas. While the metric on sales of ZEVs and PZEVs addresses non-GHG air emissions, the current quantitative metrics may not offer a complete and representative indication of company management of non-GHG air emissions from vehicles. The addition of a qualitative metric on how companies are positioned to meet increasingly stringent fuel economy and emissions requirements will better accomplish the core objectives of the standard by providing investors with a more complete, representative, and useful view of company performance with respect to business model resilience. Compared to vehicles that run on gasoline, diesel vehicles emit more non-GHG emissions, but are also more fuel efficient.

The proposed qualitative metric includes in its scope both GHGs and non-GHG emissions of vehicles, which are relevant and related aspects of company management of risks and opportunities related to Fuel Economy & Use-phase Emissions. The inclusion of both of these elements is beneficial for two reasons: 1) balancing fuel economy and non-GHG emissions is a trade-off for diesel vehicles, so a combined discussion of how companies are addressing both of these aspects provides a complete discussion for diesel vehicle manufacturers; and 2) by addressing both types of emissions, the metric is broadly applicable to companies across the industry, regardless of whether they produce diesel vehicles.

Supporting Analysis

This Fuel Economy & Use-phase Emissions topic discusses two distinct types of emissions: 1) emission of air pollutants (non-GHG) from vehicles during use, and 2) emission of GHGs, which is linked to fuel economy of automobiles (the latter will be referred to as “fuel economy” henceforth in this document). Both of these types of emissions are regulated, with standards growing increasingly stringent over time. All vehicles sold in the U.S. and other markets must be pre-certified to meet local non-GHG emissions standards. On the other hand, fuel economy standards are considered on a sales-weighted basis for each model year. For both types of emissions, most testing is performed by

manufacturers at their own testing facilities, while the U.S. Environmental Protection Agency (EPA) audits the data and performs its own testing on select vehicles to confirm the manufacturers' results.⁵

A review of provisional standards revealed a gap with respect to metrics related to air pollutants. The scope of provisional metric on fuel economy was limited to quantitative measures of GHG and fuel economy, related to GHG emissions. After the publication of SASB Provisional Standards for the Automobiles industry in September 2014, it came to light that many passenger diesel vehicles emitted excessive non-GHG emissions, particularly nitrogen oxide (NOx). In the U.S. diesel cars make up about three percent of the market versus about 50 percent in Europe. Diesel cars of multiple manufacturers have been re-tested in several countries including France, Germany, United Kingdom, and the U.S. to determine if emission levels are compliant with current regulation. Most models tested were found to emit greater levels of NOx than allowed. Because of these events, testing procedures used to determine compliance with emissions limits are being overhauled. Sales of diesel vehicles in Europe are estimated to drop from 52 percent to nine percent by 2030, due to the high cost of compliance under new testing regimes. Previously, there was little evidence of non-compliance with regards to emission of air pollutants since vehicles are certified prior to sales.

Misstatement of fuel economy by certain manufacturers has also come to light in the last couple of years. In one example, two major automobile companies were fined for overstating fuel economy ratings of 1.2 million cars and sports utility vehicles. The total cost to date has been a \$395 million settlement to resolve claims from drivers; \$350 million in penalties by the U.S. government and forfeited emissions credits; \$41.2 million to settle allegations by 33 states.⁶ There are several other cases of overstating fuel economy by major manufacturers.⁷

These incidents highlight the need for investors to understand how auto makers are positioned to meet current and future emission and fuel economy regulations. The proposed metric addresses this gap and is a forward-looking indicator of how companies are managing the risks and opportunities related to regulatory requirements and customer trends, thereby enhancing the completeness and representativeness of the set of disclosures related to the Fuel Economy & Use-phase Emissions topic.

Stakeholder Consultation

Investors: The investors consulted during consultation period strongly agreed that there should be transparency regarding air pollutions from vehicles, in addition to GHG emissions.

Issuers: No feedback was received from issuers related to the content of the provisional standard or the proposed metric.

Benefits

Improves the SASB standard: Automakers are required to ensure their vehicles meet regional air emissions requirements before they are sold in a market. The proposed metric address criteria of completeness and fair representation.

⁵ "Emission and Fuel Economy Test Data," U.S. Environmental Protection Agency, accessed October 20, 2016, <https://www3.epa.gov/otaq/testdata.htm>.

⁶ David Shepardson, "Hyundai, Kia will pay \$41.2 million to U.S. states over mileage claims," *Reuters*, October 27, 2016, accessed October 27, 2016, <http://www.reuters.com/article/us-hyundai-motor-kia-motors-probe-idUSKCN12R2CT>.

⁷ Damien Carrington, "Fuel economy: just two cars deliver advertised mileage, tests show," *The Guardian*, September 1, 2016, accessed September 2, 2016, <https://www.theguardian.com/environment/2016/sep/01/fuel-economy-just-two-cars-deliver-advertised-mileage-tests-show>.

Improves decision-usefulness: Expanding the scope of the metric to include air pollutants improves decision-usefulness as it enhances the completeness of emissions disclosure. This would allow investors to better assess management approach and strategy concerning use-phase emissions.

Proposed Update #5-3 – **Industry:** Automobiles; **Topic Name:** Materials Sourcing

2017 Technical Agenda Item #5-3 Description

The SASB is evaluating revisions to the topic, including the corresponding metrics, based on its potential to affect corporate value.

No Proposed Change

Based upon research, stakeholder consultation, and/or recommendations of the SASB, no changes related to Technical Agenda Item #5-3 have been proposed to the provisional standard at this time.

Proposed Update #5-4 – **Industry:** Automobiles; **Topic Name:** Materials Sourcing

2017 Technical Agenda Item #5-4 Description

SASB is evaluating the revision of metrics TR0101-12⁸ and TR0101-13⁹ associated with the topic to improve cost-effectiveness and decision-usefulness.

Summary of Change – Revise Metrics

The SASB proposes to revise the scope of the Materials Sourcing disclosure topic to better address financial impacts stemming from risks and opportunities related to resource scarcity. As a result of the topic revision, the SASB proposes to remove provisional metric TR0101-12, “Percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified conflict-free.” Additionally, SASB proposes to remove the term “conflict minerals” from the provisional metric TR0101-13, “Discussion of the management of risks associated with the use of critical materials and conflict minerals.”

Adherence to Criteria for Accounting Metrics

The Automobiles industry provisional standard contains a disclosure topic, Materials Sourcing, which addresses risks related to sourcing of scarce or otherwise constrained materials. The provisional standard contains three metrics that focus on costs associated with critical materials¹⁰ (TR0101-11), smelters that are verified “conflict-free” (TR0101-12), and risk mitigation strategies related to the sourcing of critical materials and conflict minerals¹¹ (TR0101-13). Upon review of the financial impacts of this topic, it is apparent that resource scarcity is the factor that gives rise to financially material impacts that are systematically relevant across the industry, rather than the sourcing of materials from areas of conflict.

Resource scarcity can arise from low substitution ratio of inputs, the concentration of deposits in only a few regions, the environmental or social implications of extraction, and geopolitical considerations. These factors can lead to supply disruptions or price increases of key materials. The existence of conflict in certain regions is one of many contributing factors that can contribute to supply constraints. Therefore, it is appropriate to revise the scope of the topic to capture performance on exposure to resource scarcity and supply constraints. The topic revision will improve the relevance of the topic across the industry and ensure that the topic is more narrowly focused on financially material impacts. The topic revision will necessitate metric revisions; the SASB proposes to eliminate quantitative provisional metric TR0101-12, as well as eliminate the focus on conflict minerals in the qualitative provisional metric TR0101-13. These two metric revisions will improve the measurement of performance on the topic.

Supporting Analysis

Companies in the Automobiles industry may face risks related to sourcing certain materials due to the low substitution ratio of these inputs, the concentration of deposits in only a few countries, the environmental or social implications of extraction, and geopolitical considerations. According to the U.S. Department of Energy (DOE), electric vehicle (EV) technology is one of the most dependent on the availability of rare earth metals. Such materials as lanthanum,

⁸ TR0101-12: Percentage of tungsten tin tantalum and gold smelters and refiners within the supply chain that are verified conflict-free

⁹ TR0101-13: Discussion of the management of risks associated with the use of critical materials and conflict minerals

¹⁰ Defined by the National Research Council as materials that are both essential in use and subject to the risk of supply restriction.

¹¹ Within the SASB standards, the term “conflict minerals” refers to tantalum, tin, tungsten, or gold (3TG).

cerium, praseodymium, neodymium, manganese, cobalt, and lithium are used in the manufacturing of EV batteries and can experience shortages. A current-generation hybrid vehicle battery contains several kilograms of rare earth elements.¹² Rare substances such as tungsten, of which China maintains more than 86 percent market share, are used in a wide variety of industry products, such as lighting filaments, electrodes, electrical contacts, and wiring. Recycling rates of these substances are typically not high enough to meet global demand, therefore extraction and processing of new deposits is required. Some countries impose production controls and export restrictions such as quotas and tariffs, which, in light of increasing demand for these materials, have, in some instances, had a significant impact on price and availability. For example, between 2010 and 2011 the price of rare earth metals doubled due to fears of Chinese export quotas.¹³

Companies also face increasing competition for these materials due to growing global demand from other sectors, including transportation, renewable resources, and technology and communications, which can exacerbate supply constraints. Additionally, there is potential for reputational harm from indirectly funding social unrest or environmental damage by purchasing materials extracted in certain regions of the world.

Stakeholder Consultation

Investors: A limited number of investors from other sectors commented that disclosure pertaining to conflict minerals is not likely to be a focal point in their investment decisions, and believed resource constraints are more likely to cause financial impacts. Although general feedback from investors on the proposed change was positive, the SASB received no direct input on the proposed change from analysts covering the Automobiles industry.

Issuers: A limited number of issuers in other sectors commented that conflict minerals disclosure is not relevant and not likely to result in material financial impacts or reputational impacts, despite regulatory reporting requirements. Issuers further indicated that the sourcing of certain materials could be material. The SASB received no direct input on the proposed change from issuers in the Automobiles industry.

Benefits

Improves the SASB standard: The proposed changes improve the usefulness, applicability, and fair representation of the suite of metrics associated with the Materials Sourcing topic.

¹² U.S. Department of Energy, "Critical Materials Strategy," December 2011, accessed August 28, 2014, http://energy.gov/sites/prod/files/DOE_CMS2011_FINAL_Full.pdf.

¹³ Ibid.



TRANSPORTATION SECTOR

AUTO PARTS INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #TR0102

Prepared by the
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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #5-5 – **Industry:** Auto Parts; **Topic Name:** Product Lifecycle Management

2017 Technical Agenda Item #5-5 Description

The SASB is evaluating the revision of metric TR0102-04¹⁴ to improve the clarity and decision-usefulness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric TR0102-04 from “Total addressable market and share of market for products aimed at improved fuel efficiency and/or reduced emissions” to “Revenue from products designed to increase fuel efficiency and/or reduce emissions”.

Adherence to Criteria for Accounting Metrics

The current SASB Auto Parts industry standard includes a topic on Product Lifecycle Management with three associated quantitative metrics intended to demonstrate the environmental impacts of a company’s products over the lifecycle of these products, including the both manufacturing and use phases. Specifically, provisional metric TR0102-04 describes the extent to which companies address fuel efficiency and emission reduction through the manufacture and sales of specific products.

Provisional metric TR0102-04 involves calculating “total addressable market” and “share of market,” which are subjective and may not be comparable among peers. Additionally, the technical protocol lacked specification on scope of the metrics, i.e., which products should be considered. The proposed metric revision shifts the metric toward disclosure of revenue from products that meet specified criteria related to fuel efficiency and emissions. The proposed revision is less subjective and would retain the original intent of the metric – to measure performance on growth opportunities related to improved fuel efficiency and/or reduced emissions. The revision will improve fair representation and comparability of the metric.

Supporting Analysis

Revenue generated from products that are designed to address fuel economy and emissions is a fair representation of performance on this topic. Per SASB’s Disclosure Intelligence Application, an American automotive interior systems manufacturer, cites fuel economy and emissions reduction as key trends affecting its business: “Customer and consumer demand for more energy efficient vehicles that meet increasingly strict fuel economy and emission standards...We are well positioned for growth capitalizing on these mega-trends as we supply high value systems and components that drive critical functionality and core elements of the vehicle’s architecture and design.” Other major auto parts companies also recognize and report on this trend in their SEC filings. A large company reports how they are addressing this trend by stating that approximately 75 percent of the company’s new and incremental business backlog launching from 2016 to 2018, an estimated \$725 million, relates to its newest all-wheel drive systems designed to improve fuel efficiency by up to 30 percent and reduce carbon dioxide emissions.

To report addressable market share, companies must calculate industry total sales for specific product categories. The determination of market share of products designed for improvement of fuel efficiency and reduction of emissions would be overly cumbersome and not comparable. For example, a leading auto parts supplier produces seven brands of ride performance products and five brands of clean air products for light vehicle, commercial truck, and off-

¹⁴ TR0102-04: Total addressable market and share of market for products aimed at improved fuel efficiency and/or reduced emissions

highway applications. A single market share number would not be a reasonable measure of how the company is addressing the sustainable product market, and providing 12 market share numbers would not be useful for an investor to benchmark performance and compare companies. To calculate market share, companies have to determine their competitors' revenue from comparable products that also improve fuel efficiency and reduce emissions. The estimations involved to calculate market share and the subjectivity of this number would not allow for comparability. The proposed revision to the metric removes the subjectivity, and correspondingly increases the verifiability of the metric.

Stakeholder Consultation

Investors and Issuers: Stakeholders strongly maintain that subjective metrics would be improved by moving to more objective measures. Stakeholder feedback on the subjectivity of "addressable market" metrics in various SASB industry standards precipitated the change. This update was not specifically vetted during the consultation period, since it is a fundamental update to improve fair representation and verifiability.

Benefits

Improves the SASB standard: The metric revision improves the standard by improving fair representation and verifiability of the metric.

Proposed Update #5-6 – **Industry:** Auto Parts; **Topic Name:** Produce Lifecycle Management

2017 Technical Agenda Item #5-6 Description

SASB is evaluating the revision of metric TR0102-06¹⁵ based on the verifiability of the data associated with the metric.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric TR0102-06 from “Weight of products and materials recycled or remanufactured” (at the end of life) to “Percentage of input materials from recycled or remanufactured content.”

Adherence to Criteria for Accounting Metrics

The current SASB Auto Parts industry standard includes a topic on Product Lifecycle Management with three associated quantitative metrics intended to demonstrate the environmental impacts of a company’s products over the lifecycle of these products, including the both manufacturing and use phases. Specifically, provisional metric TR0101-06 describes the extent to which companies address the recyclability and reusability of their products. While the current metric may provide investors with useful information, it would require issuers to track and obtain data related to the disposal of their products, which is unlikely to be available to issuers as part of their scope of business and therefore could not be easily verified. The proposed revised metric instead focuses on the use of recycled and remanufactured inputs to the issuer’s manufacturing process, thereby limiting the scope of the disclosure to factors which are within the direct control of companies with respect to the environmental impacts associated with the resource-intensive production of vehicles. The revised metric is more easily tracked and verified by issuers, thereby better accomplishing the core objectives of the standard by enhancing the cost-effectiveness of the disclosure.

Supporting Analysis

The revised metric improves the SASB standard by reducing the cost of reporting and improving verifiability.

The Auto Parts industry is actively addressing resource constraints by using recycled and alternative materials, as well as by remanufacturing in their production processes. The use of remanufacturing is prevalent in the industry as a way of supplying parts that function as new but are significantly less costly to manufacture. Daily sales of recycled original equipment manufacturer (OEM) parts sold directly to vehicle owners, repair shops, and automobile dealers exceeds 500,000 units.¹⁶ The global market for remanufactured auto parts is projected to reach \$140 billion by 2020.¹⁷ Major auto parts suppliers are using recycled content as input material. For example, one auto parts supplier which produces door panels, consoles, flooring and other parts, currently discloses using about 300 million pounds of plastics annually of which one-sixth constitutes recycled plastics.¹⁸ A leading battery producer, has made significant investments in recycling lead from used batteries to use in its production. Recycled lead has significantly less environmental impact than extracting virgin lead, and costs less to procure.¹⁹ Retreaded tires contain 75 percent recycled content and new

¹⁵ TR0102-06: Weight of products and materials recycled or remanufactured

¹⁶ “Why Use Recycled Parts?,” Automotive Recyclers Association, accessed August 11, 2017, <http://a-r-a.org/find-a-part/why-use-recycled-parts/>.

¹⁷ “Increasing Vehicle Parc and Average Age of Vehicles Drive the Automotive Parts Remanufacturing Market,” Global Industry Analysts, Inc., January 2015, accessed August 11, 2017, http://www.strategyr.com/MarketResearch/Automotive_Parts_Remanufacturing_Market_Trends.asp.

¹⁸ Jerry Powell, “Use of recycled resin in auto parts advances,” Plastics Recycling Update, May 10, 2017, accessed August 11, 2017, <https://resource-recycling.com/plastics/2017/05/10/use-recycled-resin-auto-parts-advances/>.

¹⁹ Jessica Lyons Hardcastle, “Johnson Controls, Aqua Metals Ink Battery Recycling Technology Partnership,” Environmental Leader, February 9, 2017, accessed August 11, 2017, <https://www.environmentalleader.com/2017/02/johnson-controls-aqua-metals-ink-battery-recycling-technology-partnership/>.

tires contain up to two percent.²⁰ These disclosures indicate that companies track their input materials and are likely to be able to report on the revised metric with some certainty and without excessive additional cost. In addition, the revised metric is aligned with GRI G4-EN2 metric “Percentage of materials used that are recycled input materials.”

An analysis of current disclosure on end-of-life management by auto parts suppliers (the approach to the current metric) indicated that end-of-life management is tracked only in specific regions where it is mandated, such as the European Union. About half of all auto parts suppliers’ SEC filings include some disclosure on the Product Lifecycle Management topic, per SASB’s Disclosure Intelligence application. However, most of these disclosures focus on emissions reduction and fuel efficiency rather than the end-of-life management. In sustainability reports, disclosures also focused on emissions and sourcing of materials, rather than end-of-life management of auto parts. This analysis, which is supported by consultation with industry experts, indicates that reporting on provisional metric TR0102-06 would be unduly burdensome and not verifiable and so, does not meet the goal of cost-effectiveness and the criteria of verifiability for metrics. This reinforces the importance of ensuring the scope of the disclosure defined by the metric contains data to which companies in the industry are likely to have access, as was done with the proposed revision.

Stakeholder Consultation

Investors: Multiple investors unanimously agreed that the revised metric on the use of more sustainable input materials would improve the standard. Investors cited the example of savings from use of remanufactured parts and recycled input materials in battery manufacturing due to its positive impact on cost reduction, as well as preventing environmental damage. A large battery maker benefits from recycling by insulating itself from increasing lead prices and controlling input costs.

Issuers: Multiple issuers strongly agreed that a revised metric focusing on the use of recycled materials is within the scope of company control, and would be reportable, rather than the previous metric on end-of-life management. Issuer feedback indicates that auto parts suppliers have difficulty tracing products at the end of their useful life, since recycling and waste processing is conducted by entities separate from the manufacturers. For example, the tire industry would only be able to report industry-wide numbers for the recycling of end-of-life tires which would not allow for comparison among different tire suppliers.

Benefits

Improves the SASB standard: The revised metric limits what companies measure and disclose data on operations to factors which are within their control, thereby improving the its verifiability.

Improves cost-effectiveness: The provisional metric would have required companies to set up detailed and cost intensive systems to track the end-of-life of their products across various markets. This revision to the metric with a focus on input materials will be less costly to measure and report.

²⁰ “Waste Tire Recycling,” Iowa Department of Natural Resources, accessed August 11, 2017, <http://www.iowadnr.gov/Environmental-Protection/Land-Quality/Waste-Planning-Recycling/Tires>

Proposed Update #5-7 – **Industry:** Auto Parts; **Topic Name:** Materials Sourcing

2017 Technical Agenda Item #5-7 Description

The SASB is evaluating revisions to the topic, including the corresponding metrics, based on its potential to affect corporate value.

No Proposed Change

Based upon research, stakeholder consultation, and/or recommendations of the SASB, no changes related to Technical Agenda Item #5-7 have been proposed to the provisional standard at this time.

Proposed Update #5-8 – **Industry:** Auto Parts; **Topic Name:** Materials Sourcing

2017 Technical Agenda Item #5-8 Description

SASB is evaluating the revision of metrics TR0102-09²¹ and TR0102-10²² associated with the topic to improve cost-effectiveness and decision-usefulness.

Summary of Change – Revise Metrics

The SASB proposes to revise the scope of the Materials Sourcing disclosure topic to better address financial impacts stemming from risks and opportunities related to resource scarcity. As a result of the topic revision, the SASB proposes to remove provisional metric TR0102-09, “Percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified conflict-free.” Additionally, SASB proposes to remove the term “conflict minerals” from the provisional metric TR0102-10, “Discussion of the management of risks associated with the use of critical materials and conflict minerals.”

Adherence to Criteria for Accounting Metrics

The Auto Parts industry provisional standard contains a disclosure topic, Materials Sourcing, which addresses risks related to sourcing of scarce or otherwise constrained materials. The provisional standard contains three metrics that focus on costs associated with critical materials²³ (TR0102-08), smelters that are verified “conflict-free” (TR0102-09), and risk mitigation strategies related to the sourcing of critical materials and conflict minerals²⁴ (TR0102-10). Upon review of the financial impacts of this topic, it is apparent that resource scarcity is the factor that gives rise to financially material impacts that are systematically relevant across the industry, rather than the sourcing of materials from areas of conflict.

Resource scarcity can arise from low substitution ratio of inputs, the concentration of deposits in only a few regions, the environmental or social implications of extraction, and geopolitical considerations. These factors can lead to supply disruptions or price increases of key materials. The existence of conflict in certain regions is one of many contributing factors that can contribute to supply constraints. Therefore, it is appropriate to revise the scope of the topic to capture performance on exposure to resource scarcity and supply constraints. The topic revision will improve the relevance of the topic across the industry and ensure that the topic is more narrowly focused on financially material impacts. The topic revision will necessitate metric revisions; the SASB proposes to eliminate quantitative provisional metric TR0101-12, as well as eliminate the focus on conflict minerals in the qualitative provisional metric TR0101-13. These two metric revisions will improve the measurement of performance on the topic.

Supporting Analysis

Companies in the Auto Parts industry may face risks related to sourcing certain materials due to the low substitution ratio of these inputs, the concentration of deposits in only a few countries, the environmental or social implications of extraction, and geopolitical considerations. According to the U.S. Department of Energy (DOE), electric vehicle (EV) technology is one of the most dependent on the availability of rare earth metals. Such materials as lanthanum, cerium, praseodymium, neodymium, manganese, cobalt, and lithium are used in the manufacturing of EV batteries and can

²¹ TR0102-09: Percentage of tungsten, tin, tantalum, and gold smelters and refiners within the supply chain that are verified conflict-free

²² TR0102-10: Discussion of the management of risks associated with the use of critical materials and conflict minerals

²³ Defined by the National Research Council as materials that are both essential in use and subject to the risk of supply restriction.

²⁴ Within the SASB standards, the term “conflict minerals” refers to tantalum, tin, tungsten, or gold (3TG).

experience shortages. A current-generation hybrid vehicle battery contains several kilograms of rare earth elements.²⁵ Rare substances such as tungsten, of which China maintains more than 86 percent market share, are used in a wide variety of industry products, such as lighting filaments, electrodes, electrical contacts, and wiring. Recycling rates of these substances are typically not high enough to meet global demand, therefore extraction and processing of new deposits is required. Some countries impose production controls and export restrictions such as quotas and tariffs, which, in light of increasing demand for these materials, have, in some instances, had a significant impact on price and availability. For example, between 2010 and 2011 the price of rare earth metals doubled due to fears of Chinese export quotas.²⁶

Companies also face increasing competition for these materials due to growing global demand from other sectors, including transportation, renewable resources, and technology and communications, which can exacerbate supply constraints. Additionally, there is potential for reputational harm from indirectly funding social unrest or environmental damage by purchasing materials extracted in certain regions of the world.

Stakeholder Consultation

Investors: A limited number of investors from other sectors commented that disclosure pertaining to conflict minerals is not likely to be a focal point in their investment decisions, and believed resource constraints are more likely to cause financial impacts. Although general feedback from investors on the proposed change was positive, the SASB received no direct input on the proposed change from analysts covering the Auto Parts industry.

Issuers: A limited number of issuers in other sectors commented that conflict minerals disclosure is not relevant and not likely to result in material financial impacts or reputational impacts, despite regulatory reporting requirements. Issuers further indicated that the sourcing of certain materials could be material. The SASB received no direct input on the proposed change from issuers in the Auto Parts industry.

Benefits

Improves the SASB standard: The proposed changes improve the usefulness, applicability, and fair representation of the suite of metrics associated with the Materials Sourcing topic.

²⁵ U.S. Department of Energy, "Critical Materials Strategy," December 2011, accessed August 28, 2014, http://energy.gov/sites/prod/files/DOE_CMS2011_FINAL_Full.pdf.

²⁶ Ibid.



TRANSPORTATION SECTOR

AIRLINES INDUSTRY

Sustainability Accounting Standard

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #5-9 – **Industry:** Airlines; **Topic Name:** Environmental Footprint of Fuel Use

2017 Technical Agenda Item #5-9 Description

The SASB is evaluating the removal of metric TR0201-04²⁷ based on the fact that it is already disclosed in financial filings.

Summary of Change – Remove Metric

The SASB proposes to remove provisional metric TR0201-04, “Notional amount of fuel hedged, by maturity date”.

Adherence to Criteria for Accounting Metrics

The Airlines industry provisional standard includes a topic, Environmental Footprint of Fuel Use, which is focused on greenhouse gas (GHG) emissions associated with fuel consumption. Four associated metrics describe corporate performance on direct GHG emissions, fuel use, strategies to manage GHG emissions, and fuel hedging practices.

Provisional metric TR0201-04 calls for notional amount of fuel hedged, by maturity date. Similar to other industries that rely heavily on fuel, airlines may engage in fuel hedging. Airlines are, however, required to disclose the financial impact of fuel hedging in their SEC filings, thus the metric is proposed for removal. The performance of an airline on the environmental footprint of fuel use will be fully captured by the remaining metrics on GHG emissions, emissions reduction targets, and fuel consumption,

Supporting Analysis

The removal of the fuel hedging metric would improve the standard by improving the completeness and fair representation of the Environmental Footprint of Fuel Use metrics. The financial impact of hedging activities are already required in SEC filings, thus including them in the standards is duplicative of existing disclosures. Excluding the fuel hedging metric, the remaining three metrics for this topic provide a complete picture of the management of GHG emissions by airlines. These three metrics illustrate performance through total GHG emissions, which can be normalized by activity metrics or financial metrics; fuel use, including use of renewable fuels which have lower lifecycle emissions; and management strategy to reduce future emissions. Without the fuel hedging metric, the topic has the minimum set of decision-useful metrics to describe company performance.

Stakeholder Consultation

Investors: The limited number of investors, who provided feedback on the Airlines standards during the consultation period were strongly in favor of the proposed metric removal.

Issuers: All major U.S. carriers, as represented by their industry association, and companies in individual consultation unanimously agreed with the proposal to remove the metric. The other metrics in this topic are sufficient to capture operational efficiency and airline management of fuel consumption and emissions reduction.

Benefits

Improves cost-effectiveness: Removing a metric that is already disclosed improves cost-effectiveness of the standard.

²⁷ TR0201-04: Notional amount of fuel hedged, by maturity date

Proposed Update #5-10 – **Industry:** Airlines; **Topic Name:** Environmental Footprint of Fuel Use

2017 Technical Agenda Item #5-10 Description

The SASB is evaluating the completeness of the metrics associated with the topic.

No Proposed Change

Based upon research, stakeholder consultation, and/or recommendations of the SASB, no changes related to Technical Agenda Item #5-10 have been proposed to the provisional standard at this time. An updated fleet fuel use efficiency metric will be researched, vetted, and proposed in the future after the publication of a new International Civil Aviation Organization's (ICAO) carbon standard. Metrics for consideration include: percentage of new fleet certified to ICAO standard, and aircraft fleet age distribution. The SASB invites suggestions for new metrics and comments on these two metrics.

Proposed Update #5-11 – **Industry:** Airlines; **Topic Name:** Customer Welfare

2017 Technical Agenda Item #5-11 Description

The SASB is evaluating the addition of a topic and a corresponding metric based upon materiality.

Summary of Change – Add Topic and Metric

The SASB proposes adding the disclosure topic, "Customer Welfare." The SASB invites comments on metrics to accurately capture performance on this topic, that are comparable and applicable to both domestic and foreign carriers as two of the top five airlines by revenue, that are listed in U.S. exchanges, are foreign-domiciled, and among the top 15 by revenue, six are foreign-domiciled. One possible metric is complaints per 100,000 enplanements, a metric readily available through the Department of Transportation for domestic carriers, but which does not effectively capture customer satisfaction for foreign carriers.

Description of Topic

Customer Welfare pertains to an airline's ability to provide services that are aligned with societal expectations of fairness, equitability, and responsibility. As a consumer-facing industry, customer welfare and satisfaction are key drivers for the Airlines industry.²⁸ The Airlines industry ranks low in level of satisfaction among the service industries tracked by J.D. Power, below rental car companies and hotels. Positive consumer experience can potentially increase revenue either via increased market share on existing routes or via the addition of new customers or new routes. Passenger loyalty and word-of-mouth are of importance for the industry, as they increase revenue, brand reputation, and thus intangible assets.

The Airlines industry has a unique set of customer service challenges related to the complexity of operating on-time, safe, and comfortable flights in a competitive industry. In 2011, Congress enacted the Enhancing Airline Passenger Protections rule in the wake of several high-profile incidents in which customers faced undue discomfort and inconvenience. Passengers do not always understand their rights associated with baggage, refunds, cancellations, and itinerary changes, and are often unfairly surprised by them. The new rules put constraints on the actions of airlines toward passengers in certain situations, for example, with fines for violations. As the evidence below indicates, the fines can add up to several million dollars for just one poorly managed flight. Airlines that adhere strictly to the new and evolving rules will be better positioned to avoid fines and increase customer satisfaction and loyalty.

The Enhancing Airline Passenger Protection rules cover tarmac delays, full-fare advertising, baggage fee refunds, and flight delays. Airlines that allow passengers to sit on the tarmac for more than three hours can face penalties up to \$27,500 per passenger.²⁹ Airlines are required to refund any fee for carrying a bag if the bag is lost, and customers are now entitled to cash compensation up to \$650 for domestic travel, and \$1,300 for international travel once flight delays exceed certain limits. The U.S. Department of Transportation (DOT) is proposing new requirements and upgrades to the newly enacted rules. This is an area of focus and evolution for the regulatory agency, and while the fines in the evidence section are not overwhelming, they are emerging and may become more pronounced unless airlines pay close attention to these details in their operations.

²⁸ Passenger safety as related to the safe operation of flights is separately addressed under Accidents & Safety Management topic.

²⁹ Doug Cameron, "U.S. Levies First Tarmac-Delay Fine," *The Wall Street Journal*, November 15, 2011, accessed September 28, 2013, <http://online.wsj.com/article/SB10001424052970204190504577038012670211508.html>

Evidence

In 2011, regulators issued their first penalty for tarmac-delays to the commuter-airline arm of a major airline. The airline paid a fine of \$650,000 and gave passengers a total of \$250,000 for exceeding the three-hour limit placed on tarmac delays. The fine was well below the potential \$16.7 million fine that the airline could have paid, per the consumer-protection rules, which state that fines can be up to \$27,500 per passenger if stranded on the ground for more than three hours.³⁰ Through 2015, the Department of Transportation had issued \$5.4 million in fines to airlines for violations of tarmac-delay rules, including failures to report lengthy tarmac delays. A smaller carrier was hit with one of the largest fines—a \$1.6 million penalty in 2015—after passengers on 16 of its planes were stuck on the tarmac at Chicago's Midway Airport during severe weather in January 2014.³¹

In February 2011, an airline was fined \$90,000 for a lack of transparency on overbooked flights. The passengers who were offered vouchers to voluntarily leave overbooked flights were not informed that to redeem their vouchers, they would have to pay fees as high as \$30. The DOT also criticized the airline for not disclosing that passengers booking over the phone would have to mail their vouchers to the airline up to three weeks before their flight.³²

In 2012, the U.S. DOT fined a European airline \$250,000 for violating rules on full-fare advertising as well as an international treaty on reimbursements for mishandled baggage. The airline was promoting award travel in emails and on their website without appropriately disclosing that there were taxes and government fees associated with the fares. The airline also failed to list the carrier-imposed charges, including fuel surcharges in the advertised price. The airlines had a policy of not paying compensation for loss, damage, or theft from checked baggage of certain fragile or valuable items such as money, jewelry, electronic devices, or silverware. This policy violates the Montreal Convention, an international agreement setting rules for international air travel.³³

A 2009 study by Forrester Research Inc., of customer experiences across industries found that airlines have the most revenue to gain from word-of-mouth, with an opportunity to gain \$118 million in revenue per year. The same study derived a Customer Experience Index and ranked companies relative to their industry's average score. Of the seven U.S. airlines included in the study, only one was in the top quartile of performance; two were in the third quartile, and the remainder scored in the bottom quartile.³⁴ Through a series of mergers and acquisitions, market power in the Airlines industry has been consolidated such that the top four U.S. carriers hold about 70 percent of the market.³⁵ Airlines compete for market share based upon a number of factors, including customer service, which analysts regularly consider in their assessment of company performance.

Stakeholder Consultation

The addition of this topic was not vetted, with investors or issuers.

³⁰ Doug Cameron, "U.S. Levies First Tarmac-Delay Fine," *The Wall Street Journal*, November 15, 2011, accessed September 28, 2013, <http://online.wsj.com/article/SB10001424052970204190504577038012670211508.html>

³¹ Robert Channick, "Rule to prevent tarmac delays backfires for airline passengers: study," *Chicago Tribune*, January 5, 2016, accessed July 5, 2017, <http://www.chicagotribune.com/business/ct-tarmac-delays-0105-biz-20160104-story.html>

³² "American Airlines Fined Over Lack of Transparency on Overbooked Flight," *Tnooz*, March 8, 2011. Accessed October 29, 2013, <https://www.tnooz.com/article/american-airlines-fined-over-lack-of-transparency-on-overbooked-flights/>

³³ "DOT Fines British Airways for Violating Price Advertising, International Baggage Compensation Rules," United States Department of Transportation, October 1, 2012, accessed September 20, 2017, <https://www.transportation.gov/briefing-room/dot-fines-british-airways-violating-price-advertising-international-baggage>.

³⁴ Bruce Temkin, "Customer Experience Boosts Revenue," *Forrester Research Inc.*, June 22, 2009.

³⁵ "Leading airlines in the U.S. - domestic market share 2016," *Statista*, 2017, accessed September 8, 2017, <https://www.statista.com/statistics/250577/domestic-market-share-of-leading-us-airlines/>.

Benefits

Improves the SASB standard: The addition of this disclosure topic will provide investors a complete picture of material sustainability issues for the Airlines industry.

Improves cost-effectiveness: Any proposed metric that is aligned with industry practice and reliant on readily available data will be cost-effective to report.



TRANSPORTATION SECTOR

AIR FREIGHT & LOGISTICS INDUSTRY

Sustainability Accounting Standard

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #5-12 – **Industry:** Air Freight & Logistics; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #5-12 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic “Fair Labor Practices” to “Labor Practices.”

Supporting Rationale

Fair Labor Practices, the topic name used in the provisional standard, may be perceived as an implicit value judgment due to the inclusion of the word “fair.” A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including neutrality. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by removing terminology that could be perceived as lacking neutrality.

Benefits

Improves the SASB standard: The proposed revision improves the neutrality of the standard.

Proposed Update #5-13 – **Industry:** Air Freight & Logistics; **Topic Name:** Environmental Footprint of Fuel Use

2017 Technical Agenda Item #5-13 Description

The SASB is evaluating the completeness of the metrics associated with the topic.

No Proposed Change

Based upon research, stakeholder consultation, and/or recommendations of the SASB, no changes related to Technical Agenda Item #5-13 have been proposed to the provisional standard at this time. An updated fleet fuel use efficiency metric will be researched, vetted, and proposed in the future after the publication of a new International Civil Aviation Organization's (ICAO) carbon standard. Metrics for consideration include: percentage of new fleet certified to ICAO standard, and aircraft fleet age distribution. The SASB invites suggestions for new metrics and comments on these two metrics.



TRANSPORTATION SECTOR

CRUISE LINES INDUSTRY

Sustainability Accounting Standard

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #5-14 – **Industry:** Cruise Lines; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #5-14 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic “Fair Labor Practices” to “Labor Practices.”

Supporting Rationale

Fair Labor Practices, the topic name used in the provisional standard, may be perceived as an implicit value judgment due to the inclusion of the word “fair.” A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including neutrality. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by removing terminology that could be perceived as lacking neutrality.

Benefits

Improves the SASB standard: The proposed revision improves the neutrality of the standard.