

I have participated in railroad standard as a public participant. I do not represent a railroad but a consultant to railroad industry.

Below are my comments.

1. Environmental Footprint of Fuel Use, code – TR0401-03: Besides total fuel consumed, fuel consumed per unit load mile may be a more appropriate metric for differentiation and acknowledge efforts for more sustainable operations.
2. Accident and Safety Management, Code TR0401-06: It will be difficult for railroads to secure TRIR data for contractors for work associated with railroads only. Many contractors work across the industry and their numbers are calculated for the company and not for work specific an industry sector.
3. Accident and Safety Management, Code TR0401-07: Spill and accidents range over a broad spectrum. Funds spent in responding to spills provide a better assessment of the overall attention by companies to minimize spills and accidents.
4. Accident and Safety Management, Code 0401-08: Environmental compliance should be a metric. Amounts paid for noncompliance with environmental regulations should be a metric.

Thank you

Riaz Ahmed



## ASSOCIATION OF AMERICAN RAILROADS

July 16, 2014

Dr. Jean Rogers  
Executive Director  
Sustainability Accounting Standards Board  
75 Broadway, Suite 202  
San Francisco, California 94111

Dear Dr. Rogers:

The Association of American Railroads (“AAR”) provides these comments on the Rail Transportation Exposure Draft issued by the Sustainability Accounting Standards Board (“SASB”) in April 2014 (hereinafter referred to as the “Exposure Draft”).

AAR is a trade association whose membership includes freight railroads that operate 83 percent of the line-haul mileage, employ 95 percent of the workers, and account for 97 percent of the freight revenues of all railroads in the United States; and passenger railroads that operate intercity passenger trains and provide commuter rail service.

As discussed further below, industry-wide SASB standards for the railroad industry are burdensome and unnecessary. These proposed accounting metrics are redundant with existing reporting. The railroads already report the information at issue to various federal entities, including the Securities and Exchange Commission (“SEC”), the agencies of the Department of Transportation (“DOT”), the Surface Transportation Board (“STB”) and the National Response Center (“NRC”), which make this information available to the public. Accordingly, AAR urges SASB to refrain from recommending these metrics.

Governance professionals and even some at the SEC have expressed serious concerns about SASB’s efforts to develop standards that conflict with those of the SEC, and AAR shares these concerns. In comments submitted to SASB on September 16, 2013, the Society of Corporate Secretaries & Governance Officials explained that requiring additional, immaterial disclosures creates burden without benefit and is inconsistent with principles under U.S. securities laws, noting also that the concept of industry materiality is based on erroneous assumptions. In addition, while speaking at the American Institute of CPA’s conference on December 9, 2013, SEC staff highlighted the importance of avoiding overemphasis of immaterial matters in public disclosures in

order to minimize the risk that investors attach undue significance to such matters. The metrics suggested by SASB in the Exposure Draft are immaterial and will not provide more clarity to investors but may confuse and dilute existing SEC-mandated disclosures. As articulated by SEC Commissioner Daniel Gallagher on March 27, 2014, "We must also take exception to efforts by third parties that attempt to prescribe what should be in corporate filings. It is the Commission's responsibility to set the parameters of required disclosure."

Illustrative of the concerns that the AAR has with promulgation of the proposed standards are the following comments on the metrics included in the Exposure Draft:

#### Environmental Footprint of Fuel Use (TR0401-01 - 03)

- The *Environmental Footprint of Fuel Use* section of the Exposure Draft refers to disclosures of Scope 1 emissions. However, Scope 1 emissions typically are not limited to emissions resulting from the use of diesel fuel. Accordingly, it is unclear whether this section is intended to require disclosure of all Scope 1 emissions or merely those related to locomotive diesel fuel use.
- Railroads already disclose fuel use and emissions data in a number of publicly available reports and thus this duplicative metric imposes unnecessary and burdensome requirements on railroads. Moreover, the "financial control" test being prescribed for this calculation and disclosure is not consistent with current practices. Both the Greenhouse Gas (GHG) Protocol and Carbon Disclosure Project (CDP) allow companies discretion in deciding whether their disclosure should be based upon financial or operational control. The proposed SASB metrics do not allow companies the same level of discretion.

#### Competitive Behavior (Introductory Paragraph, TR0401-04)

- AAR strongly disagrees with the suggestion that railroads face "heightened risks from antitrust laws" compared to other industries. Railroads compete aggressively with each other in a transportation market where there is extensive intramodal competition. Even where shippers are served by only one railroad, fierce intermodal, product, and geographic competition are factors.
- The Exposure Draft states that railroads "face potential material impacts from government action". This statement is extremely vague and appears to suggest that the railroad industry again is unique from other industries in this regard. AAR strongly disagrees with this implication.
- As with other sections, much of the data sought in this section of the SASB proposal is already included in reports railroads file with the SEC, making this metric duplicative, burdensome, and unnecessary.

## Accident and Safety Management (TR0401-05-09)

- The vast majority of the metrics in the Accident and Safety Management area are again redundant, burdensome, and unnecessary since such data are publicly available elsewhere. Information regarding train accidents, personal injuries, accidental releases and non-accidental releases is already reported to the DOT and/or NRC. Information regarding "violation defects" is available in the Federal Railroad Administration's Annual Enforcement Report that is publicly available on the web. Moreover, many of these proposed metrics (e.g., number of FRA-reportable incidents, which can include minor derailments, number of FRA recommended "violation defects", frequency of integrity inspections, etc.) require substantial context and technical understanding to be meaningful to investors, and such context and technical information is not provided. Thus, such information would be meaningless, confusing, and distracting for investors without the addition of even more burdensome, redundant, and unnecessary reporting requirements. For example, information on railway integrity inspections would distract from data on train accidents, which is a more meaningful, uniform and comprehensible standard, and which is already reported to the DOT.
- Reporting of near miss data as proposed by SASB should not be required for several reasons. First, publishing such information could dissuade some employees from self-reporting near miss incidents. Second, each railroad has its own process and standards for tracking near miss incidents. Although the proposed standard would require each railroad to disclose its process for classifying, identifying and reporting these incidents, the resulting data would not be consistent or comparable among railroads. Lastly, the proposed definition for near miss incident ("an incident where no property or environmental damage or property damage occurred but where damage or personal injury easily could have occurred but for a slight circumstantial shift") is vague and would result in varied and inconsistent interpretation of "slight circumstantial shift".

### Conclusion

Reporting requirements such as those proposed by SASB for the railroad industry would be redundant, burdensome, and unnecessary and would not result in additional meaningful information for investors. Accordingly, SASB should refrain from recommending these metrics for the railroad industry.

Respectfully submitted,



Louis P. Warchot  
Janet L. Bartelmay

Counsel for Association of American Railroads



July 17, 2014

Sustainability Accounting Standards Board  
75 Broadway, Suite 202  
San Francisco, CA 94111

Dear Sir/Madam,

### **Introduction**

The Automotive Industry Action Group (AIAG) and its members would like to thank SASB for the opportunity to provide comments on two SASB documents: Automobiles, SICSTM TRO101 and Auto Parts, SICSTM TRO102. The comments provided in this letter were compiled in compliance with AIAG requirements.

### **Request**

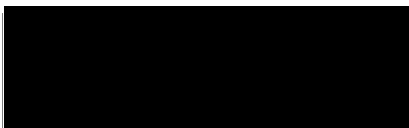
As a part of the future discussions on these two documents with SASB, it will be very helpful for the AIAG members to review the materiality matrix that was completed as a part of the SASB document development. Please provide this document to AIAG prior to any discussions.

### **Executive Summary**

Scope. AIAG and the member companies have identified scope and the establishment of boundaries as a critical issue. We want to confirm that the information that a company would be providing would cover all company operations globally that a company has identified for reporting purposes (i.e., minority joint ventures, small operations) and not just pertaining to operations in the US or the NAFTA countries. In many of the metrics, SASB cites US regulations, standards, and databases. However, all of the OEMs and a very large majority of the suppliers have a global footprint with global markets and global customers. So using US regulations, standards, and databases would only apply to a portion of the products and the markets serviced. Even within NAFTA, regulations for topics ranging from recalls to waste classification differ between Canada, Mexico, and the U.S.

Confidentiality. SASB is requesting sensitive business information. Without specific regulatory requirements, it will be a challenge to have consistent information provided across the global automotive industry. From a legal and competitive position, many companies will be reluctant to disclose sensitive information unless required by regulation and applicability applies throughout the sector as it is seen that disclosure of this information could be a competitive disadvantage.

Total vs. Normalized Values. Presently, SASB is requesting data that is a cumulative total per metric for the purpose of comparing companies and evaluating trends. This comparative and trend analysis cannot be performed with this type of data. The only way to compare trends is with normalized values. With OEMs, it can be normalized to vehicles or sales, but for the



suppliers, it must be normalized to sales. In addition, there must be consistency between the metrics for OEM and the supply chain. Without this consistency, there will be a greater burden on the supply base to provide data to the OEM and to support its reporting.

Legal Consistency. Without a legal enforcement, it will be tough to acquire consistency between suppliers in reporting. For example, it could be a competitive disadvantage for a supplier to report fines that were non-material and receive negative publicity and a poor reputation when its competitors are not reporting this information. SASB must define an enforcement mechanism or other method to ensure consistent reporting amongst companies. What mechanisms does SASB have in-place to be able to create or assure a “level playing field”?

Water. It is not clear to the member companies why water was not considered to be material, as the scarcity and quality of water is acknowledged to be a critical issue globally. As can be seen in the detailed comments, like energy, water is a regional issue, but it is more than an emerging issue, it is one that requires some form of accountability.

Maturity. The collection of some of the information will take time to collect. There is not the management support or the data collection mechanisms in place for collecting this data. Therefore, development of a maturity matrix would be appropriate, with one, two, or even three phases of reporting.

Collaboration. There is a level of common detail that AIAG member companies would like to convey to SASB. However, it would not be efficient or effective for AIAG to create a large document and then have SASB trying to interpret and react to this document. To make these standards more realistic and effective, it is recommended that SASB work directly with AIAG and its member companies on the development of this standard development. The member companies would like to participate in the:

- detailed discussions to help create the next draft and
- adequate time for review of the document prior to any public release

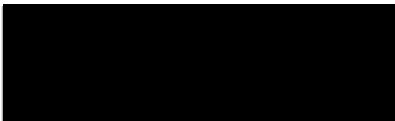
## Detailed Comments

1. TR0101-01, TR0102-02 Greenhouse Gas (GHS). To be consistent with the requirements and guidance of the Carbon Disclosure Project (CDP), both scope 1 and 2 emissions should be reported. It is not understood why is there so much focus on reporting to the requirements of the Kyoto protocol? It would be more consistent and efficient to refer to the requirements of the Carbon Disclosure Project (CDP), which many AIAG member companies are already using and reporting to. As is well known, there is a wide variation in GHG emission data within companies and within industries. In one study, it was found that 17 different reporting methodologies were used by companies to arrive at their GHG emissions. Therefore, SASB needs to be aware that there is substantial variation just with

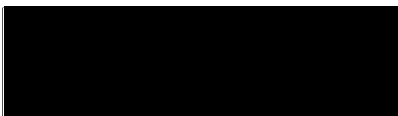


the use of different emission factors and methodologies. In order to compare companies, SASB needs to be able to qualify the category of a company. If a 5B company just assembles, then it looks far better than a 5B company with more vertical operations (i.e., foundries, heat-treating). If the objectives are to compare companies, then normalizing of data and categorizing of companies is essential. It might be best to align with CDP and work with them for the precise delivery of the metric calculation methodology and all its supporting information.

2. TR0101-02, TR0102-01 Energy. Two metrics, normalized energy usage and energy efficiency, are the important metrics driving energy investments and conservation. It is not clear why there is a strong focus on renewables, as energy often has a regional focus based on availability, pricing, regulatory, incentives, etc. In asking for total energy, there is no acknowledgement that business fluctuations need or should be taken into account. In requesting the percent of grid electricity utilized, it is a cumbersome task to create this metric, as there are often peak loading and emergency generators at plants. To define the percent of grid electricity utilized would require extensive new recordkeeping, without any clear benefit. There is a range of technical issues, for example how would waste heat be captured, internal electrical generation be accounted for, wind turbine and solar cell electrical generation? What is the goal of the metric, to get the relative intensity? If a 5B company just assembles, then it looks far better than a 5B company with more energy intensive processes (i.e., foundries, glass making, heat-treating, and rubber). If the objectives is to compare companies, then normalizing of data and categorizing of companies is essential. It might be best to align with CDP and work with them for the precise delivery of the metric calculation methodology and all its supporting information.
  
3. TR0101-03, TR0102-03 Waste.
  - a. As with TR0101-02 and TR0102-01, there is no acknowledgement that business fluctuations need or should be taken into account. Therefore, total normalized waste is a more meaningful value. If a 5B company just assembles, then it looks far better than a 5B company with more waste intensive processes (i.e., foundries, steelmaking, glass making). The company with assembly operations can often use returnable dunnage and recycle the cardboard and plastic. Whereas a steel mill or foundry creates tons of non-recyclable waste (i.e., casting sands, slag). If the objectives is to compare companies, then normalizing of data and categorizing of companies is essential. It might be best to align with CDP and work with them for the precise delivery of the metric calculation methodology and all its supporting information.



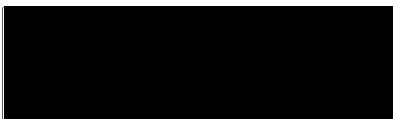
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- b. Remove the “hazardous waste” category. This US based definition is regulatory derived. It would be expensive and difficult to test and classify the wastes produced outside the US to the RCRA requirements.
  - c. It would be beneficial for SASB to create a category of percent of waste going to landfill and percent of waste being recycled. This information is generally available and can provide a measure of the company’s commitment to sustainability.
  - d. Evaluate a metric for material efficiency. How much of the raw material is used in the product?
  - e. Wastewater. AIAG would be interested in understanding why wastewater was not included in the metrics? For some component manufacturing, this is a significant aspect of the operation (i.e., glassmaking, aluminum foundries).
4. Water Usage. Neither TR0101 nor TR0102 ask for any measure of water management. For operations in water stressed areas, this is an important measure. On a qualitative basis, it is best to ask what companies are doing to reduce water usage and waste in water stressed areas. Globally, it is better to ask what a company is doing to use water in a responsible manner.
5. TR0101-04, TR0102-04, TR0102-05 Employee Health and Safety and Well-Being
- a. TRIR – is the best of the lagging safety indicators, but is not well understood globally. As a result, TRIR data is often inconsistent within a company and therefore, will be very inconsistent within an industry and not a level metric between companies. If the objective of SASB is to have globally consistent data, then the lost workday rate (LWDR) or also known as days away from work (DAWR) is the more consistent global metric. It would be better to have the most consistent data globally than to have the best metric, therefore, go with DAWR. There would have to be more supporting information, i.e., maximum days for each injury. AIAG member companies can assist in providing documentation for the needed level of detail. Since the objective is to compare companies globally, it is recommended that SASB use the LWDR as is metric. AIAG can assist with the metric definitions and methodologies.
  - b. Employee and Contractor Data. In all US based companies, the work-related injuries and illness and hours worked are recorded for both employees and temporary workers/supervised contractors. There is a range of privacy issues across the global that requires discussion. All this data resides in just one database and not in



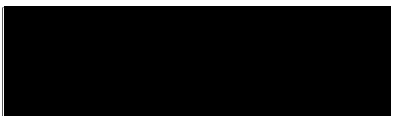


separate databases. Therefore, it is not recommended for SASB to request separate recording and reporting for these two groups. An important note, companies do not record or report work-related injuries, illness, and hours worked for contractors that work without supervision. It would be somewhat misleading to report work-related injuries/illnesses for workers over whom the host company has no supervisory responsibility or ability to gather real-time safety data from.

- c. **Near Misses.** In leading companies, the reporting and reporting of near misses is highly encouraged. However, within companies, safety professionals recognize that there is a very high degree of variability of reporting and recording near misses. Sometimes a near miss is reported to remind people of a risk, procedures, etc. Therefore, a near miss reporting of this nature may inflate numbers and be misleading. Further, some near misses may have been accidents that were prevented by solid safety practices and vigilance. Reporting such near misses could be misleading when, in fact, good safety principles reduced an accident/injury situation to a near miss. The National Safety Council (NSC) has attempted to define near miss and has not been able to do so. A near miss is subject to a wide range of cultural interpretations and is highly subjective. As a result, it is recommended that SASB remove this metric from the standard.
  - d. **Fines and Penalties.** Currently, all material fines are reported already in the 10K report for publically held companies. It is not clear why SASB would have this only to apply to supply base and not to automakers as well. To be fair and consistent, there must be similar metrics across the industry and not just ask something of the supply base. If this metric will not be requested of the automakers, then remove this metric from the standard.
6. TR0101-05 Product Safety. NHTSA Rating. Not all vehicles are NHTSA 5 star rated, decisions on what safety equipment to place in a vehicle is based on regulation, market conditions, consumer demand, and a range of other factors. A better mechanism is to support the global NCAP (new car assessment program) effort so that there is a harmonized global approach to vehicle safety rating. A NHTSA rating is neither a predictor of quality or recall issues nor a complete assessment of how a vehicle performed during a crash (i.e., in car adult, in car child, pedestrian). Therefore, without a common commercial definition or a global NCAP in place, this metric is highly subjective and it is best to remove this metric from the standard.
7. TR0101-06, TR0101-07, TR0102-06 Product Safety



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- a. Number of Defect Complaints, Safety Related Defect Complaints, and Percent Investigated. Complaints are often mixed with both quality and safety, so if customer complaints contain both categories, then it will require the automaker to segregate issues in each complaint prior to aggregating the data. There is wide variation in how legal concerns are addressed globally and resulting in inconsistent reporting in reporting across the industry. The investigation is dependent upon on a wide range of factors that often are covered by legal privilege. This metric is highly subjective and it is best to remove this metric from the standard.
  - b. Automaker Recalls. There is not a common definition for vehicle recalls. Recalls are highly variable by region and by country. A recall may be made for a variety of reasons, regulation, safety, quality, performance. Recalls for safety related issues would be highly variable since safety features are often country or market specific. Therefore, without a common commercial or legal definition, this metric is highly subjective and it is best to remove this metric from the standard.
  - c. Supply Chain Recalls. In the supply chain, recalls are dependent on many factors from commercial terms to regulatory requirements to design/production responsibilities. How replacement parts are provided to OEMs is subject to a wide range of commercial terms and requirements that vary by OEM and region. For example, a supplier may “build a part to print”, so if it is a design defect, the supplier may not be responsible. If it is a manufacturing defect, then it may be the supplier responsibility to supply replacement parts. The liability associated with defects is often handled in confidential, legal agreements. Therefore, without a common commercial definition, this metric is highly subjective and it is best to remove this metric from the standard.
8. TR0101-08, TR0101-09 Fuel Economy and Use Phase Emissions
- a. There is no global standard for fuel economy and use phase emissions. In Europe the emphasis is on CO2 generation, whereas in the US and Canada it is fuel economy. The values reported for fleet fuel economy are reported regionally. Fuel economy is reported based on the model year and is not reported on a fiscal year basis. The test cycle tool is not proven, and not relied upon by OEMs. References are made to fleet fuel economy averages as defined in 1975 law, and notable changes made to law as part of the Energy Independence and Security Act of 2007 do not seem to be captured in the proposal. More generally, it should be noted that extensive regulatory reporting is required of vehicle fuel economy and GHG emissions. SASB efforts to incorporate these factors should rely, to the greatest extent possible, on existing, publicly available data.



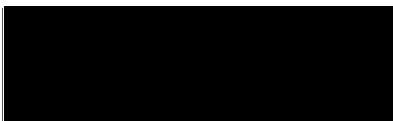
- b. TR0101.08.39 and TR010-08.40. The proposed SASB language talks about vehicles "weighing 8,500 pounds or more". Due to existing regulatory structures, we presume that to mean vehicles with a "gross vehicle weight rating (GVWR) of 8,500 lbs. or more". As worded, however, that could be interpreted as a reference to curb weight, which would be problematic and inconsistent with regulatory reporting requirements.
- c. TR0101-09 Delete metric for zero emission vehicles as there is a wide range of definitions for this category of vehicles. The societal value of ZEVs depends upon not only the number of vehicles sold, but also amount of utilization, electric miles traveled, and petroleum displaced. The proposed definitions fail to capture important technology and market distinctions, and could result in highly misleading conclusions.

9. TR0102-07 Product Stewardship

- a. Supply chain. Under the definition, any product that reduces weight by a mere fraction could be classified as being designed to improve fuel efficiency and reduce emissions. A design change on a vehicle that reduces the size for a component would mean that that product now is being more fuel efficient, but it was simply the result of a vehicle design requirement. A supplier can offer green products, but it is how the OEM uses the product that determines whether it adds to the fuel economy. By simply allowing weight reduction to be used as a criteria, any part with a slight weight reduction would qualify as a fuel efficient part or component. A better measure of product stewardship is to simply define the percent of products that can be recycled and the average recyclability of categories of products (i.e., 100% recyclability for suspension products, 50% recyclability for electronic components). This would require that SASB and AIAG define the categories of parts and then have the supplier define the percent recyclability.
- b. In Europe, the End of Life Vehicle (ELV) reports the recyclability for vehicles sold in Europe only. This metric could be phased in over time for global use; however, will require substantial expansion of the processes and systems used to report in Europe.

10. TR0101-10, TR0102-09 Product End of Life

- a. The weight of products remanufactured is misleading, as it could range from a part that has been reworked prior to its sale to a part that has been a post-consumer



rebuild. There are no systems in place to capture this data and it would require a substantial investment to capture and report this data.

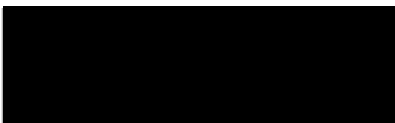
- b. Outside of Europe, the percent recycled is not under the OEM control. For vehicles sold in Europe, the percent recyclable is achievable and usable. In Europe, the OEMs disclose the recyclability and recoverability of a vehicle. Outside of Europe, there are no systems in place to capture this data and it would require a substantial investment to capture and report this data.
- c. The items listed in TR0101-48 and 49, are proprietary information and therefore, it is recommended to remove this metric.

11. TR0101-11, 12, 13, TR0102-11, 12, 13 Supply Chain Management

- a. TR0101-12 “The percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified to be conflict free.” This first sentence implies that this is a standard that can be reached, unfortunately with our current amount of information it is not attainable for most companies (this will be described more in .53). Additionally, the header sentence should state “smelters and/or refiners”.

.53 “The registrant shall calculate the percentage as: the number of tungsten, tin, tantalum, and gold smelters and/or refineries within its supply chain that are verified to be conflict-free divided by the total number of tungsten, tin, tantalum, and gold smelters or refineries within its supply chain.” While there is a defined list of verified conflict-free smelters or refiners to be the dividend for this equation, the known world of non-verified smelters or refiners is still amorphous which leads to an inaccurate divisor. We do not have a static number for these smelters, which may range from 600-1200. When aggregated, the number of smelters provided to one automaker this past year was over 100,000. The disproportionate number is due to suppliers compiling all of their own suppliers responses into forms sent to the automaker without removing duplicates. Moreover, the responses from suppliers would cover anywhere from 0-100% of their supply chain; therefore, obtaining an accurate quotient for the equation is impossible because obtaining an accurate number of non-verified smelters is impossible with our current abilities.

.54 “any other due diligence certification, audit, or program that meets the conflict minerals provisions of Dodd-Frank Section 1502”. Dodd-Frank Section 1502 and the rule promulgated by the SEC do not contain a smelter audit standard. This is an industry driven initiative created in response to Dodd-Frank. Therefore, it is inaccurate to state “...or program that meets the conflict minerals provisions of Dodd-Frank,” because Dodd-Frank does not have a standard to meet.



Therefore, remove any mention of Dodd-Frank and leave it as an industry standard.

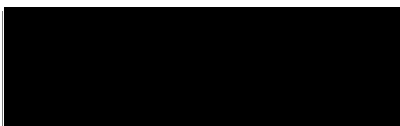
.55 “A smelter or refinery is considered to be within the registrant’s supply chain if it supplies or is approved to supply 3TG that is contained in any products the registrant manufactures or contracts to be manufactured.” The rule requires for the materials to actually be contained in the product manufactured by the issuer, a smelter or refiner should only be considered a part of the supply chain when they actually are providing materials, not merely approved to do it. The approval line underlined above is creating standards not in the law and moreover will lead to inaccurate data and confusion.

- b. TR0101-13 “Discussion of the management of risks associated with the use of critical materials and conflict minerals.” This section is asking for responses for two completely separate topics, conflict minerals and critical minerals have no relation to one another. By grouping them together, the similar names can lead to confusion in responses. If these questions are necessary, it should be split into two distinct sections. .56 “The registrant shall discuss its strategic approach to managing its risks associated with usage of critical materials and conflict minerals in its products, including physical limits on the availability, access, price, and reputational risks”

First and foremost, there is nothing wrong with using “conflict minerals”. Conflict minerals are the term given to tin, tantalum, tungsten, and gold. The issues arise when the conflict minerals originate from the DRC or surrounding countries and directly or indirectly fund the armed conflict. If any issues arise with these conflict minerals it will be addressed in our Form SD and Conflict Minerals Report filed with the SEC, I do not think they need to be addressed again in a 10-K.

The same assessment applies to .57 and .59. Companies cover these topics in their Form SD and CMR, but it is possible to relay the same information from those forms. .57 specifically conjoins the critical minerals and conflict minerals into the same sentence; these should not be mentioned in the same sentence, as they are two separate topics.

- 12. TR0101-14 Fair Lending. As detailed below, the "Fair Lending" Standard contained in the Exposure Draft of the SASB Sustainability Accounting Standards for the Transportation Sector provides (i) a description of the indirect vehicle financing model that is pejorative, based on flawed and unsubstantiated assumptions, and incomplete; and (ii) accounting metrics that would distort, rather than clearly reflect, whether differences in the amount of dealer participation paid by different groups of consumers create liability exposure for captive finance companies. This, in turn, would not accurately reflect a material issue and thereby fail to accomplish the purpose of this exercise.

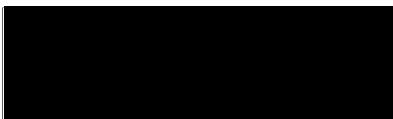


## Description

The "Description" is flawed in several regards. First, the Description states that captives provide vehicle financing through car dealers as opposed to stating that captives purchase credit contracts from car dealers. The difference is not trivial. In most retail installment sale contracts, dealers are the original creditor, not an agent of the finance source, and they sell the contract to the assignee in a secondary market sale. When performing this function, dealers absorb the retail distribution costs that otherwise would have to be absorbed by the finance source. For example, dealers provide an array of resources that are needed to deliver financing to consumers, including a physical location, personnel, advertising, point of sale compliance, and all of the administrative and overhead costs associated with these functions (which is why finance sources typically offer dealers a wholesale buy rate that is lower than the retail rate to the consumer. Consequently, dealers perform the essential origination function and are compensated for this function by retaining a portion of the interest rate on the contracts they sell to their finance sources (which is commonly referred to as "dealer participation"). Dealers are not simply "intermediaries" who gratuitously "mark-up" a rate that is otherwise available to the consumer. It is important to note that many, if not most of the non-bank financial institutions referred to in the Description as the "financial arms" of auto manufacturers are neither licensed, authorized nor physically constituted to make direct loans to consumers throughout the areas they do business and must rely on dealers for their essential role in origination.

Second, the Description mentions the need to "ensure transparency", however it is entirely unclear what needed transparency is lacking from the current indirect vehicle financing model. If it is referring to the fact that the amount of dealer participation earned in a credit transaction is not disclosed to the consumer, then it is calling for a form of transparency that has previously been considered and rejected by the Federal Reserve Board. In 1977, the Board adopted an interpretation of Regulation Z, which implements the Truth in Lending Act (TILA), stating that dealers do not have to identify the existence or amount of dealer participation because the disclosure could cause consumers to select more expensive credit products by shifting their focus away from the most relevant figures for comparing competing offers of credit – the current TILA disclosures including the retail APR.

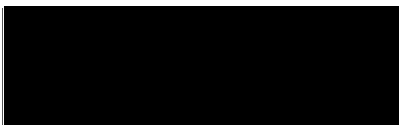
Third, the Description describes the so-called "markup" as discretionary, subjective, and unrelated to creditworthiness. Regarding the exercise of dealer pricing discretion, this is a feature of the indirect vehicle financing model that presently exists and will continue to exist regardless of the payment mechanism through which dealers are compensated for originating financing. (For an explanation, see the attached NADA article entitled The Fallacy of Flats.) Consequently, from a risk management perspective, the most effective way to address dealer discretion is to manage it in a way that addresses the risk of a fair lending violation while preserving the ability of consumers to benefit from the intense competition that exists in today's vehicle financing marketplace. Fortunately, a model exists for this purpose and for addressing the concerns expressed in the Description concerning



“markups” that are “subjective and unrelated to creditworthiness”. It is a fair credit compliance program that was developed by the Department of Justice in 2007 to resolve allegations of fair lending violations against two dealers. In consent orders with the dealers, DOJ required each dealer to establish a pre-set Standard Dealer Participation Rate (SDPR) that, in all contracts involving dealer participation, the dealer adds to the wholesale buy rate (offered by the finance source to which the dealer will sell the credit contract) to determine the APR that the dealer will offer to the consumer. The dealership is allowed to deviate from the SDPR and offer consumers an APR that includes a lower amount of dealer participation, but only if an allowable, pre-established business reason (i.e., a good faith, pro-competitive reason unrelated to the consumer’s background) is present in the transaction. The DOJ consent orders set forth seven pre-established business reasons for deviating from the SDPR, including the need to satisfy a consumer’s monthly budget constraint, the need to meet or beat a more competitive credit offer, and the existence of a manufacturer subvention program for which the consumer qualifies. This framework provides an objective and standardized means for determining the amount of dealer participation that is consistent with the federal Equal Credit Opportunity Act.

In addition to creating this risk mitigation model to resolve these cases, DOJ has – through the comments of a senior official – more recently articulated this approach as an effective way to manage fair lending risk associated with dealer participation. The DOJ risk mitigation model is incorporated in full in the NADA Fair Credit Compliance Policy & Program, which provides dealers with an optional, robust, and comprehensive framework for managing fair credit risk associated with dealer participation. (The NADA Program and a summary of the NADA Program are attached.) Therefore, in articulating ways that captives can “better protect themselves from penalties and litigation” associated with “discretionary markups”, the Description should identify this risk mitigation model as a means of accomplishing this objective.

Finally, we also note that the financial institutions that are the focus of the Description are or soon will be, regulated, and supervised by the CFPB. There are important legal issues that have not been resolved regarding the legal merits and viability of the “disparate impact” theory as an indicator of illegal discrimination in the indirect auto financing market. By requiring the disclosures set forth in the Accounting Metrics section, the SASB appears to be taking sides in this unresolved issue. But even leaving that significant touchstone legal issue aside, the CFPB has indicated that regulated financial institutions may adopt monitoring and remediation programs in this area to address the results of any unexplained disparities. Financial Institutions that engage in such activities should not be put in the position of being forced to disclose numerical data that may not ultimately have legal relevance and is not a full of fair picture of the institution’s overall fair lending program. This selective, partial informational disclosure sends an inappropriate and incorrect signal about the institution’s activities and risk in this area.



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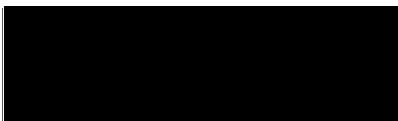
## Accounting Metrics

The accounting metrics call for the disclosure of the “median discretionary interest rate mark-up on automotive loans for: (1) all borrowers, (2) women, and (3) minorities.” This metric is similarly flawed in several regards. If adopted, it will produce disclosures that could suggest that a captive has exposure to liability for fair lending violations where none exists.

First, the metric requires that a single median dealer participation amount be provided for the category of “minorities” even though this general category is not recognized as a protected class under the Equal Credit Opportunity Act (ECOA). Rather, the protected demographic classes under ECOA are race, color, national origin, religion, gender, and age. Therefore, disclosing a median dealer participation figure for “minorities” does not reflect the existence of an ECOA violation.

Second, the metric states that the method for classifying a consumer into a particular race or ethnicity category “shall be done by self-identification (e.g., during the loan application process).” However, Regulation B, which implements ECOA, states that a “creditor shall not inquire about the race, color, religion, national origin, or sex of an applicant” unless the creditor is conducting an optional self-test. Dealers typically have not adopted self-testing procedures and they are the only creditors who interact with the consumer “during the loan application process”. Consequently, it is unclear how a captive would carry out this element of the metric. Plainly stated, captives do not have this information, and, unlike real estate mortgage lenders, it would be a violation of law for captives to obtain it for SASB disclosure purposes.

Third, the metric requires that the dealer’s earnings in a credit transaction be disclosed “in basis points,” which excludes from the disclosure dealer earnings that are not calculated in basis points (e.g., a flat fee) even though this accounting metric is designed to measure and compare the amount the dealer earns for originating financing for different groups of consumers. To illustrate the distortions this can produce, suppose five contracts that presumably involve Asian-American consumers are being compared to five contracts that presumably involve Caucasian-American consumers. Further suppose that (i) all five of the Asian-American contracts involve dealer participation and the average dealer participation earned in those contracts is 70 basis points, (ii) three of the five Caucasian-American contracts involve dealer participation and the average dealer participation earned in those three contracts is 55 basis points, and (iii) the remaining two Caucasian-American contracts do not involve dealer participation but rather involve a flat fee in which the dealer earned \$500 in each transaction. In order to conduct a meaningful comparison of the dealer’s earnings in these transactions, the same measurement standard must be used for each transaction. If that standard is basis points (as required by the accounting metric), then it is essential that the \$500 earned in the last two transactions be converted into basis points. However, the metric does not call for this, which creates the possibility that a subsequent comparison of the median dealer participation earned for these groups will reflect either (i) a 15 basis point disparity between the groups if the last two Caucasian-American contracts

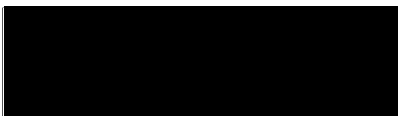




are disregarded, or (ii) a 37 basis point disparity if the last two Caucasian-American contracts are included in the calculation and each is recorded as involving 0 basis points. Under either approach, the reported differential in dealer earnings between the groups is overstated, if a pricing differential exists at all, because the comparison either disregards or inaccurately includes transactions that involved dealer earnings.

Fourth, the accounting metric does not require the disclosure of, nor does it provide instructions for computing, the margin of error that applies to the median dealer participation amounts that would have to be reported for women consumers and minority consumers. Identifying women and minority consumers can only be carried out through the use of a statistical proxy methodology that attempts to estimate the background of a consumer based on known information such as the consumer's first name or surname and the census tract where she or he resides. (As discussed above, relying on self-identification to determine a consumer's background is generally prohibited and, to the extent not prohibited, infeasible.) Because statistical models are imperfect as a predicative matter, they each involve a margin of error. Consequently, it is essential to know the margin of error that applies to the proxy method used to classify a consumer as a women and the proxy method used to classify a consumer as a minority in order to determine the accuracy of the disclosed median dealer participation amount for each classification. Without such information, it is not possible to determine whether any difference between the disclosed median dealer participation amount for either of these classifications and the disclosed median dealer participation amount for all borrowers actually exists or exists to the extent disclosed. This further erodes confidence in these disclosures as a means of assessing a registrant's potential liability exposure for a fair lending violation.

Finally, the most glaring omission in the accounting metrics is the requirement that registrants disclose median dealer participation amounts for different groups of consumers without requiring the application of any analytical controls to ensure that subsequent comparisons between the disclosed amounts are limited to groups of consumers who are similarly-situated. As noted above, there are several business factors (i.e., good-faith, competitive factors that are unrelated to a consumer's background) which may explain why a dealer's earnings in credit transactions differ between consumers. The DOJ risk mitigation model referenced above, which is incorporated into the NADA Fair Credit Compliance Policy & Program, identifies seven such factors. For this reason, these variables must be held constant in order to isolate a consumer's gender or minority status as the sole reason for any pricing differential that exists when compared to all borrowers. For example, the amount a dealer earns in a credit transaction involving a consumer who qualified for a manufacturer subvention program will likely differ from the amount the dealer earns in a credit transaction involving a consumer who did not qualify for such a program and paid a market interest rate for his or her financing. It is the fact that one of the consumers qualified for a manufacturer subvention program and one did not, and not any difference in the background of these consumers, that explains the difference in the dealer's earnings. Accordingly, when comparing dealers' earnings with regard to different groups of consumers, it is essential that consumers who received a subvented interest rate in one





group are not compared to consumers who did not receive a subvented interest rate in the other group. This applies to all other business factors that account for differentials in the amount dealers earn in credit transactions. To do otherwise (i.e., to conduct a raw pricing comparison between different groups of consumers without the application of any analytical controls) will produce a distortion that does not reflect the legal exposure of the registrant which must report these figures. Unfortunately, the accounting metrics set the stage for this distortion, as they require the disclosure of median dealer participation amounts for three categories of consumers (all borrowers, women, and minorities) without any allowance for the application of analytical controls that are needed to conduct a meaningful comparison of these amounts.

For the foregoing reasons, we believe the Fair Lending Description and Accounting Metrics contained in the Exposure Draft fail to serve their intended purpose of accurately reflecting a material issue for the industry.

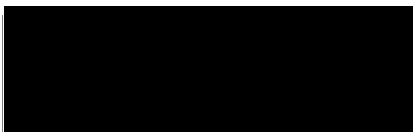
Please contact me with any questions.

Regards,

Tanya Bolden  
Program Development Manager, Corporate Responsibility  
AIAG



cc: Luke Contos, Chassis  
David Tulauskas, GM  
AIAG CR Steering Committee





# CCWG Comments on SASB Marine Transport Exposure Draft

Letter to Sustainability Accounting Standards Board (SASB)  
July 2014

## About BSR

BSR is a global nonprofit that works with its network of more than 250 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit [www.bsr.org](http://www.bsr.org) for more information about BSR's more than 20 years of leadership in sustainability.

## Introduction

Thank you for the opportunity to comment on the Sustainability Accounting Standards Board (SASB) Exposure Draft standards for Marine Transport.

The Clean Cargo Working Group (CCWG) is a global, business-to-business initiative dedicated to improving the environmental performance of marine container transport. CCWG creates practical tools for measuring, evaluating, and reporting the environmental impacts of global goods transportation.

Today, our 40 members represent more than 85% of the global container capacity and many of their customers. The work of CCWG enables the ocean container freight industry to credibly measure and report on its environmental performance to its customers using consistent, industry-approved methodology and tools.

Annually, the CCWG secretariat collects primary data on more than 40 metrics for each vessel from container shipping carriers, calculates performance results for each company and industry averages, and generates a scorecard that carriers can share directly with shipping customers. These are provided in the Annexes.

The 2013 data represents over 2,900 ships calculated from 23 of the world's leading ocean container carriers. These results are based on primary data from vessels operating during the calendar year.

## Specific Comments

CCWG has reviewed the Draft SASB Sustainability Accounting Standards for Marine Transportation, SICS #TR0301, April 2014 Exposure Draft for Public Comment and respectfully submits the following proposals for revision. Based on our experience measuring and reporting the environmental performance of marine container transport, our comments emphasize metrics approved and in-use by the industry and material issues relevant for business success and investor results. We encourage SASB to evaluate their draft standards against these comments and incorporate revisions before finalizing.

### COMMENT 1: CCWG METHODOLOGY IS THE ONLY INDUSTRY-APPROVED AND WIDELY ADOPTED MEASURE FOR CO2 IN MARINE CONTAINER TRANSPORT

Topic	Accounting Metric	Category	Unit of Measure	Code
<b>Environmental Footprint of Use</b>	Fleet Energy Efficiency Design Index (EEDI)	Quantitative	Grams of CO2 per ton nautical mile	TR0301-04

CCWG has developed a standardized CO2 calculation methodology to enable CO2 benchmarking, drive improvements, and improve data quality over time.

The methodology measures CO2 emissions in g/TEU-km. The calculation methodology for dry containers is based on International Maritime Organization (IMO) guidance for emissions and carbon contents of fuels. The CCWG CO2 methodology is, to the extent possible, based on central principles of internationally recognized standards such as the GHG Protocol supply chain guideline, the European EN 16258 standard and the IMO Energy Efficiency Operational Indicator (EEOI) guidelines, but is tailor made for container shipping and must be simple to apply and follow. The basic principles include:

- » CO2 emission calculations should be credible, verifiable, comparable and as precise as possible, yet practical for carriers and shippers.
- » Total CO2 emissions related to container transportation must be captured (incl. emissions from empty back haul sailing/re-positioning of containers) and allocated to full container loads.
- » Allocation must to the extent possible be based on capacity limiting factors, which for container ships can be defined in container (TEU) capacity and DWT restrictions.

The group continuously improves the methodology to increase the accuracy of data. Improvements are based on factors such as: changes to IMO protocols, new GHG standards, availability of better emissions factors, availability of more accurate data, utilization adjustments, and stakeholder expectations.

Furthermore, the EEDI is a measure of design efficiency, whereas the CCWG methodology and the IMO EEOI guidelines are measures of operational efficiency. EEOI data may be a better indicator for tanker, bulk, and other types of maritime cargo transport for investors.

**As the standard used by 85 percent of the maritime container industry, we recommend SASB use CCWG as the “Accounting Metric” and g/TEU-km as the “Unit of Measure” in its measure of CO2 for container shipping, and consider other relevant measures such as the IMO EEOI for other types of maritime transport.**

**COMMENT 2: ELIMINATE THE MEASURE FOR THE “MEDIAN FLEET WORLD PORT CLIMATE INITIATIVE (WPCI) ESI SCORE”**

Topic	Accounting Metric	Category	Unit of Measure	Code
<b>Environmental Footprint of Use</b>	Median fleet World Port Climate Initiative (WPCI) Environmental Ship Index (ESI) Score	Quantitative	Number	TR0301-02

The Environmental Ship Index (ESI) is a voluntary system designed to improve the environmental performance of sea going vessels. However, its reach and methodology would not provide meaningful environmental performance information at the rigor required by investors, and results could actually be misleading.

ESI evaluates the amount of nitrogen oxide (NOX), sulfur oxide (SOX) that is released by a ship and includes a reporting scheme on the greenhouse gas emission of the ship. Currently, none of our members that represent 85 percent of the maritime container industry report their entire fleet to the ESI. Several of

our carriers do not report any of their vessels to ESI. Yet the data that they do report is used to develop an index rating for the entire fleet and in some cases, the entire company. The results are not representative of the performance of the entire fleet, nor of management of material sustainability issues, and can therefore be misleading.

Additionally, we have concerns about using the methodology for environmental performance evaluation. For example, NOx performance is based on engine design instead of performance and points are awarded for cold ironing retrofits whether operational or not. Carriers have expressed to us these and other legitimate concerns about the rigor of the methodology as a basis for environmental performance evaluation.

**We recommend SASB eliminate the “Median fleet World Port Climate Initiative (WPCI) Environmental Ship Index (ESI) Score” metric or clarify the material issue it is designed to measure.**

### **COMMENT 3: ADD NOX, SOX, AND PARTICULATE MATTER DUE TO REGULATORY MATERIALITY**

Emissions of SOx, NOx, and particulate matter generated by combustion of marine distillates are known health hazards regulated by agencies and municipalities around the world. From the European Maritime Safety Agency: “Globally, air pollution is regulated by IMO through its International Convention for the Prevention of Pollution from Ships (MARPOL) and its Annex VI. MARPOL Annex VI, first adopted in 1997, limits the main air pollutants contained in ships exhaust gas, SOx and NOx, and prohibits deliberate emissions of ozone depleting substances.

Under the revised MARPOL Annex VI, the global sulphur cap is reduced initially to 3.50% (from the current 4.50%), effective from 1 January 2012; then progressively to 0.50 %, effective from 1 January 2020, subject to a feasibility review to be completed no later than 2018. The limits applicable in Emission Control Zones (ECAs) for SOx and particulate matter were reduced to 1.00%, beginning on 1 July 2010 (from the original 1.50%); being further reduced to 0.10 %, effective from 1 January 2015.

Progressive reductions in NOx emissions from marine diesel engines installed on ships are also included, with a "Tier II" emission limit for engines installed on or after 1 January 2011; then with a more stringent "Tier III" emission limit for engines installed on or after 1 January 2016 operating in ECAs.”

These pollutants are of special concern to the port regions of the world, and recent actions by all California ports and others require emissions reduction beyond ECA regulations. These existing and future regulations impose compliance costs and may result in granting of or loss of access to specific ports of entry that are material to maritime businesses and investors.

**We recommend SASB add priority pollutants as an “Accounting Metric” and use industry accepted operational measures as “Unit of Measure” for SOx, NOx, and Particulate Matter.**

## Conclusion

### THANK YOU FOR THE OPPORTUNITY TO COMMENT

The CCWG thanks the Sustainability Accounting Standards Board for the Opportunity to comment on the Exposure Draft standards for Marine Transport. Please feel free to contact the secretariat with any questions or clarification:

Angie Farrag-Thibault  
Associate Director, BSR Transport & Logistics Practice  
Email: [REDACTED]  
Phone: [REDACTED]

## Annex 1: CCWG Environmental Performance Metrics and Scoring

### Performance Metrics

Metric	Units
Nominal CO2 Performance	gCO2/TEU-km
Nominal SO2 Performance	gSOx/TEU-km
SOx Emissions	Fleet-wide Average Sulfur Content of Fuel
NOx Emissions	Post-1999 Fleet-wide Average Performance Against IMO curve
NOx Emissions	% of reported vessels included in NOx carrier score calculation*
Environmental management systems	% of Fleet with Certified EMS
Transparency	10 indicators (see “Company-Level Data” below)

### Performance Score

See Attachment 1: CCWG Scoring Methodology

## Annex 2: CCWG Environmental Performance Data Collection

The following is the list of primary data collected by CCWG carriers and reported annually to the Secretariat. Time period is Jan 1 – Dec 31 of the previous year.

Company-Level Data
Carrier Name
Public reporting on annual CO2 emissions from operations?
Public reporting on environmental goals/targets?
Public description of policies/programs on the management of environmental impacts?
Public description of initiatives to use renewable energy sources and increase energy efficiency?
Public disclosure of breakdown of fleet composition
Public reporting on charter partners’ environmental impacts
Public reporting on initiatives to influence charter partners’ environmental impacts
Public description of initiatives to control urban air emissions
Public description of initiatives to control traffic congestion, and noise in relation to road transport
Public description of environmental impact of major infrastructure assets (railways, real estate)
Data Verification Status
Vessel-Level Data
Vessel
IMO No.
Time frame of data (in days)
Year (new built/major engine conversion)

Vessel ownership
Tradelane (Up to 6 trade lanes)
Nominal capacity in TEU
Number of reefers plugs
Distance sailed (in km)
Fuel consumed -- HFO (in tonnes)
Fuel consumed -- MDO/MGO (in tonnes)
Weighted average sulfur content of HFO (%)
Weighted average sulfur content of MDO/MGO (%)
Does this vessel spend 80+% of its time in a SOx ECA?
Main engine: NOx performance (in g/kWh)
Main engine: rated engine speed (in rpm)
Aux. engine: NOx performance (in g/kWh)
Aux. engine: rated engine speed (in rpm)
Certified to ISO 14001?
Certified to other environmental management system equivalent to ISO 14001?
If yes, what system is the vessel certified under?
Use of SPC Anti-fouling paints?
Use of non-toxic anti-fouling paints?
Use of stern tube oil biodegradable accord. to OECD?
Use of water lubrication or air seal?
External hydraulic fluids & lubricant grease biodegradable accord. to OECD?
External hydraulics exchanged to electrical power
Use of gear oil biodegradable accord. to OECD?
Use of cleaning agents not classified as CMR, sensitizing or dangerous to the environment
Use of refrigerants that are natural (NH3, CO2) or HFC complying with GWP < 3500 and ODI=0
Boiling/cooling water treatment to non-CMR, non-sensitizing, non-toxic level
Mid-ocean ballast water exchange
Ballast water treatment to IMO final approval - non-toxic level
Bilge water treatment to <5ppm oil, only approved surfactants
No discharge of sewage in sensitive areas (PSSA)
Sewage treatment plant on board
"No-incineration" policy in place
"No-garbage-over-board" policy in place
Saved fuel analysis documentation (3 yrs) and full compliance with ISO 8217:2005 or legal action when not in compliance



[REDACTED]  
[REDACTED]  
[REDACTED]  
United Kingdom

11<sup>th</sup> July 2014

**Re: Transportation Sustainability Accounting Standards consultation submission**

Dear Andrew,

We are grateful for the opportunity to formally respond to the SASB consultation dealing with Transportation Sustainability Accounting Standards. Our comments follow below.


We welcome the publication of draft standards in the Transportation sector. The draft standards and other provisions represent significant progress in establishing the basis for non-financial reporting and are very comprehensive in scope.

As with CDSB's previous submissions to SASB's draft standards, we would like to highlight the synergy between CDSB and SASB and emphasise the complimentary nature of our activities, while recognising our differing geographical and sector related focus. We recognise the language, provisions and substance of the draft standards and endeavour to ensure consistency in our updated Framework. We acknowledge and welcome the various CDSB Framework cross references and request they are clarified to refer to the existing version 1.1 of our Framework. We are currently developing an update to the CDSB Framework which will include water stewardship and forest risk commodity reporting guidance.

We suggest the CDP cross references are prefaced by the year in which they were issued. The CDP information requests continue to evolve annually and question numbering does change slightly. Therefore we invite you to reference the latest version of the CDP climate change questionnaire guidance<sup>1</sup>. Please also note the CDP Auto and Auto Component Manufacturer Module<sup>2</sup>, which SASB could cross reference, in particular for sales-weighted CO<sub>2</sub> emissions, sales of alternatively-powered vehicles, and sales of clean technologies. You have already received comments from CDP's Water team; please also consider the relevance and sustainability impacts that deforestation-risk commodities such as biofuel/biodiesel/biomass, cattle products (leather) and timber have for the transportation sector. For more information, refer to CDP's forests program<sup>3</sup>.

If we can be of any further assistance, please don't hesitate to get in touch.

Kind regards,



Dr Jarlath Molloy  
Technical Manager  
Climate Disclosure Standards Board



Esben Madsen  
Senior Technical Officer  
CDP

[REDACTED]  
[www.cdsb.net](http://www.cdsb.net)

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[www.cdp.net](http://www.cdp.net)

<sup>1</sup> <https://www.cdp.net/Documents/Guidance/2014/Climate-change-reporting-guidance-2014.pdf>

<sup>2</sup> <https://www.cdp.net/Documents/Guidance/2014/Auto-module-reporting-guidance-2014.pdf>

<sup>3</sup> <https://www.cdp.net/CDP%20Questionnaire%20Documents/CDP-forests-information-request-2014.pdf>

*Via e-mail* [REDACTED]

July 17, 2014

Sustainability Accounting Standards Board  
75 Broadway, Suite 202  
San Francisco, CA 94111

**RE: Sustainability Accounting Standards Board Proposal for Auto Parts,  
SICSTM TR0102**

Dear Sir/Madam:

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 companies that manufacture motor vehicle components and systems for use in the light- and heavy-duty vehicle original equipment and aftermarket industries. MEMA represents its members through its four divisions: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA). Below, MEMA responds to the Sustainability Accounting Standards Board (SASB or the Board) proposal on Auto Parts, SICSTM TR0102.

Motor vehicle component manufacturers directly employ over 734,000 Americans, making this industry the largest creator of manufacturing jobs nationwide. Additionally, the motor vehicle component manufacturing industry generates another 1.27 million indirect jobs in the supply chain, provides over \$220 billion in annual wages and income, and contributes \$355 billion to the U.S. Gross Domestic Product. The member companies of MEMA manufacture sustainable motor vehicle parts and components – promoting motor vehicle safety, enhancing fuel efficiency and protecting the environment.

MEMA supports the comments of the Automotive Industry Action Group (AIAG) and urges the Board to carefully review the recommendations and concerns raised by AIAG. MEMA would like to specifically draw attention to the following issues:

Confidentiality

MEMA represents major manufacturers that compete on a global basis. As the standards developed by SASB are not mandatory for filers with the Securities and Exchange Commission (SEC), it will be unlikely that filings will contain consistent information. Much of this information requested is sensitive confidential business information (CBI), and public disclosure of this information could create a competitive disadvantage. Since the filings containing sensitive business information would not be treated in a confidential manner, suppliers will be hesitant to disclose much of the requested data.





### Supply Chain Management – TR0102-12, TR0102-13

The metrics outlined in the standards assume that automotive and automotive component manufacturers will be able to determine the percentage of tin, tantalum, tungsten and gold smelters and refiners that are verified to be conflict-free. This proposed requirement to state the percentage of minerals that are conflict-free creates a biased assessment that material from smelters and refiners that are not verified to be conflict-free contain conflict minerals, when in fact only a small percentage of the total global smelters and refiners have been verified as conflict-free. The information currently available about the universe of smelters and refiners is incomplete, making any calculations inaccurate. Therefore, what is sought after in the proposed standards is simply impossible to reach any accurate conclusions.

Additionally, companies must meet a statutory and regulatory requirement to report the presence of conflict minerals in their product. The annual reporting of Form SD and the SEC conflict minerals report requires a statement indicating if a company's products contain minerals from the Democratic Republic of the Congo that contribute to the conflicts in the region. Requiring additional information in a filer's Form 10-K, such as the percentage of minerals from the conflict region, is unnecessary and places an increased burden on the industry's supply chain. MEMA urges you to remove these requirements from the standards.

### Product Safety – TR0102-06

The metrics outlined for product stewardship link product safety performance to the recall standards of the National Highway Traffic Safety Administration (NHTSA). This process was designed for a specific purpose unrelated to the charter of SASB and is therefore an imperfect measure for the purposes of this proposal. MEMA recommends that this metric be removed from the standards.

### Conclusion

In closing, MEMA urges you to consider the comments submitted by AIAG as well as the recommendations in this letter. Should you have any questions, please contact Catherine Boland, vice president of legislative affairs for MEMA at [REDACTED] or 202-312-9241. Thank you for your attention to this important issue.

Sincerely,

Ann Wilson  
Senior Vice President, Government Affairs



To: SASB

Re: 2014 SASB Transportation Sustainability Draft Accounting Standards

Pirelli & C. SpA (“Pirelli”) comments on **Auto Parts Draft Industry Standard (TR0102)**

Pirelli is headquartered in Milan and listed on the Milan Stock Exchange. The company has a manufacturing and commercial presence in the United States of America but is not listed on any US stock exchange. The following comments have been prepared by Pirelli’s Sustainability Department, according to the feedback from Pirelli central competent functions, and reviewed with Pirelli Tire LLC, our US incorporated company not listed on any stock exchange.

First, we applaud the work of SASB in providing sustainability disclosure guidance and voluntary accounting standards for use by companies in their SEC filings. This should draw greater attention to risks and opportunities, and increase the amount of comparable data companies are reporting. Our comments below reflect our approach to Sustainability reporting.

Pirelli just published its ninth Sustainability Report, which has been drawn up according to the “Comprehensive option” of the GRI-G4 version. The Report has also been prepared in accordance with the principles of completeness, materiality and responsiveness set out in Standard AA1000, and the analysis of sustainable performance is based on a set of Key Performance Indicators (KPIs), developed in accordance with the GRI-G4 indicators, the ten principles of the Global Compact (to which Pirelli became a signatory in 2004), while also taking account of data periodically monitored by the leading rating agencies of sustainable finance.

#### General Comments

1. We found the grouping of tires and other types of automotive suppliers together to be somewhat problematic given the diverse nature of products and businesses within the category. Some of the accounting metrics relate to the nature of a business, and therefore would not create comparative data among companies manufacturing the same product; instead creates non-equivalent comparisons between, for instance, a tire company and a brakes company. For further explanation, see below under “Product End-of-Life Management.”
2. In addition, many of the accounting metrics refer, as is of course necessary, to “negative” issues (percentage of critical materials, etc.), while we see opportunities for possible “positive” metrics as well.
3. In our opinion it is important throughout for calculations to be based on weight of finished products and not on number of finished products, in line with GRI practices and, thus, the way most multinational companies worldwide are reporting.

#### Disclosure Topics

1. We believe that WATER WITHDRAWAL is a material topic for the Auto Parts industry and should be included.
2. While PRODUCT END-OF-LIFE MANAGEMENT is important for the tire industry, and the tire industry collectively is very active in proposing and managing solutions in this area, individual tire manufacturers have little or no control over the disposal of tires, as is also evident in the chapters dedicated to Tire



industry responsibility, Government/community responsibility and free market approach in the “Managing End-of-Life Tires” Full Report published by World Business Council for Sustainable Development (<http://www.wbcd.org/work-program/sector-projects/tires/end-of-life-tires.aspx>).

#### Accounting Metrics

##### **Energy Management (TR0102-01):**

Given that a significant majority of companies reporting on sustainability already utilize the GRI guidelines, it would be useful to align conversion indices and certifications. Specifically, we note that SASB indicates HHV rather than LHV for calculating energy consumption, and confines energy from biomass sources to Green-e Energy certified or eligible for a state Renewable Portfolio Standard.

##### **Gross Global Scope 1 Emissions (TR0102-02):**

In the United States greenhouse gas emissions are reported to the EPA under the Greenhouse Gas Reporting Rule; we would encourage alignment with EPA reporting as well as with CDP and CCRF.

##### **Waste Management (TR0102-03):**

- Percentage recycled: waste sent to energy-recovery facilities should be included (in line with GRI, European and United Nations norms and regulations). This is a material issue.
- The calculation formula described in point .15 is not clear to our technical experts – so this should be further clarified.
- Percentage hazardous: we recommend adopting the GRI definition of hazardous waste in addition to the EPA RCRA definition.

##### **Product Quality & Safety (TR0102-06):**

It is worth noting that:

- Transparency and early-response voluntary recalls are highly encouraged by NHTSA. Voluntary recalls are a good thing and manufacturers should be encouraged, not discouraged, from voluntary recalls. Therefore the SASB reporting standards should highlight voluntary recalls as a positive. (To clarify this point: if GM received more positive feedback from investors before revealing its safety issues than it did after, SASB would not be incentivizing transparency.)
- Some recalls are not for safety issues but have to do with, for example, mis-marking a product. SASB standards should highlight the difference.

##### **Product Stewardship (TR0102-07):**

- “Total addressable market” for products aimed at improved fuel efficiency should be defined by an independent third party for all companies in a specific product category (different manufacturers could estimate this differently).
- “Share of market” would likely constitute confidential business information, and disclosure of this information could put US-listed tire manufacturers at a competitive disadvantage with respect to competitors.
- One of the indicative products in point.37 is “reduced rolling resistance tires” – but the specific definition is not clarified. Once US consumer information tire labeling is instituted by NHTSA, this could be defined according to a specific category indicated by the label. If not clearly defined, the resulting calculations based on market share of the total addressable market would not be particularly meaningful.



- In addition, the accounting metrics (expressing a company's market share of total fuel efficient product market) would appear to highlight large companies with a large share of a particular fuel efficient product market, even if the majority of the company's products are not at all fuel efficient. A small company whose product portfolio is entirely fuel efficient might report a small market share, giving little recognition to its efforts and investments in the fuel efficient product category.

#### **Product End-of-Life Management (TR0102-08 and 09):**

- The percentage of products sold that are recyclable could be a valid indicator for many automotive components, but not for tires, because 100% of tires are recyclable. Indeed, although tire manufacturers do not have direct access to end-of-life tires (they are disposed of either by the consumer or by tire retailers), manufacturers act in coalitions to facilitate the recycling process. In the US, the Rubber Manufacturers' Association (RMA) has been very active in helping to facilitate tire recycling for various applications (tire derived fuel, rubberized asphalt, artificial turf and playground surfaces, yard mulch, building materials etc.).
- Similarly, "weight of products remanufactured" could be a valid indicator for many automotive components, but not for tires, because it is not possible to produce new tires from recycled old tires. Today, only negligible amounts of recycled material from old tires can be used in new ones. This indicator would therefore not be material for the tire industry.

#### **Supply Chain Management (TR 0102-11, 12 and 13):**

- Critical materials: We estimate that a very large majority of tires on the market contain trace quantities (intentionally added) of some of the materials listed. This makes listing revenue of products containing critical materials a KPI of questionable usefulness.
- Conflict minerals: the SEC Final Rule implementing Dodd-Frank Section 1502, regarding Tin, Tungsten, Tantalum and Gold, requires that issuers "disclose annually whether any of those minerals originated in the Democratic Republic of the Congo or an adjoining country. **If an issuer's conflict minerals originated in those countries**, Section 13(p) requires the issuer to submit a report to the Commission that includes a description of the measures it took to exercise due diligence on the conflict minerals' source and chain of custody. The measures taken to exercise due diligence must include an independent private sector audit of the report ..." (see SEC Final Rule on Conflict Minerals: <http://www.sec.gov/rules/final/2012/34-67716.pdf>) Our understanding of this is that if a smelter is located in China, Indonesia or Bolivia it does not require a specific audit, because it is already "DRC conflict free." And given that thus far the CFSP list only has, for example, a total of 13 certified smelters for Tin worldwide, it is unlikely under current conditions that any company in any industry is able to declare that all smelters used in its supply chain are on this list. It would be very onerous for a company to have specific audits carried out on all smelters in its supply chain – and not useful for compliance with Dodd-Frank.

Therefore, we would recommend SASB focus on **DRC** conflict minerals. It is expected, however, that it will take several years for companies to be able to verify this throughout 100% of their supply chains.



Please feel free to contact us with any questions.

Best regards,

Eleonora Pessina  
Pirelli Group Sustainability Officer

and Maureen Kline

Pirelli Tire LLC Public Affairs and  
Sustainability

# W. L. Hall Response to SASB Automobiles (TR0101)

## Introduction

I am pleased to provide my response to the SASB Automobiles Exposure Draft for Public Comment, TR0101. I also should note that, in assembling these comments, I periodically consulted with my direct reports at Chrysler Group in order to provide a more complete assessment.

## Overview Comments

Scope -- It is important to clarify the intended scope of the SASB proposal. Many of the metrics included in the SASB draft reference US regulations and databases. However, most of the major automotive OEMs and a large majority of the suppliers are global companies with global markets. In that respect, the US regulations and US databases referenced by SASB would only apply to a portion of the products and the markets serviced, thus limiting the scope and relevance of such a filing. Given the myriad regional differences in regulations and market requirements, I recognize the difficulty in creating globally standardized reporting metrics, but it seems to me there is more work to be done to globalize the SASB framework.

Proprietary information – Some of the proposed metrics in this draft represent sensitive or proprietary information that automakers may choose not to reveal for competitive or other reasons.

Water -- Water is not currently listed as a topic on the FASB draft, presumably because it was judged to be lower in materiality than the other topics. Given that water scarcity and water quality are critical global issues, SASB may want to include it as a topic in its proposal along with energy, waste and emissions.

## Detailed Comments

### 1. Greenhouse Gas Emissions

*TR0101-01* – Gross global Scope 1 emissions

- There should be a threshold for which minor sources can go unreported (for example reported emissions should represent at least 95% of CO<sub>2</sub>e emissions).
- CO<sub>2</sub>e emissions values and basic requirements should mirror what is reported in Carbon Disclosure Project (CDP) and cover both normalized (i.e. volume-adjusted) emissions and absolute values.
- CO<sub>2</sub> represents the vast majority of the greenhouse gas emissions from automotive plants; for this reason, I suggest that the standard use CO<sub>2</sub> emissions as a proxy for CO<sub>2</sub>e emissions.
- Emission factor and heating value definitions should originate from country-specific regulatory reporting, if applicable.

### 2. Energy Management

*TR0101-02* – Total energy consumed, percentage grid electricity, percentage renewable energy



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- Values and basic requirements should mirror what is reported in CDP and include normalized energy consumption as well as absolute values.
- .08 -- Any consumption of energy for purposes of manufacturing and operations should be included – for example compressed air is not listed, although some facilities purchase compressed air as an energy source.
- .09 -- Heating value definitions and conversion factors should originate from country-specific regulatory reporting, if applicable.
- .11-- Adoption of renewable energy alternatives is dependent on the cost tradeoffs between non-renewable and renewable energy; in that respect, grid electricity that is relatively low-cost frequently hinders adoption of renewable alternatives. This relationship is very regional and country-specific and should be considered in this standard.

### 3. Waste Management

*TR0101-03* – Amount of total waste from manufacturing, percentage recycled, percentage hazardous

- .16 -- Reused materials are difficult to track as they are typically reused for their intended original purpose, so there is little value in reporting them as waste. For example, a pallet that is reused is not waste until it stops being used as a pallet (e.g. shredded for use in some other product).
- .17 -- Hazardous waste should be defined based on local regulations in order to make quantities congruent and traceable to existing values.
- Waste quantities should be normalized to account for fluctuations in the output volume of products or services.
- Strong consideration should be given to non-product outputs that serve as feeder stock to create other products, either inside or outside the company. These could be outputs that have a non-zero dollar value and recycled or directly incorporated into other products. For this reason, perhaps the best indicator is waste that has no value or drives disposal costs – these are typically wastes that are landfilled or treated.
- Also, as mentioned earlier, water consumption per production unit could be a metric – water consumption is routinely measured by automotive companies and is an important indicator of efficiency and effective cost management, as well as environmental responsibility.

### 4. Employee Health, Safety, and Well-Being

*TR0101-04* – (1) Total Recordable Injury Rate and (2) Near Miss Frequency Rate for (a) full time employees and (b) contract employees

- .18 -- TRIR is not consistent in definition in each country, even to the extent that the normalization factor is different. For example, in the US, recordable injury counts are normalized per 200,000 man-hours, whereas in the Europe it is per 100,000 worked. In order to create a global metric, a common factor will need to be selected; Fiat Chrysler, for example, uses 100,000 for its corporate reporting.
- .20 -- Near Miss should not include potential property or environmental damage and should focus only on personal injury; in addition, this metric can be very subjective, and consequently there is a high degree of variability of reporting and recording of near misses.

## W. L. Hall Response to SASB Automobiles (TR0101)

- .21 -- It is very important to distinguish between contract employees that are supervised by the OEM and those that are not, because injuries to independent contractors and those not supervised by the company may not be tracked by the company. I recommend that data for direct and contract employees under direct supervision be reported together and that data for non-supervised workers not be included in the standard.

### 5. Product Safety

*TR0101-05* -- Percentage of vehicles, by sales, with NHTSA's overall 5 star safety rating

- The challenge with this category is that a single set of global safety rating standards does not exist.
- A suitable approach may include NCAP which "aims to encourage the worldwide availability of independent consumer information about the safety of motor vehicles." That being said, however, there is not yet a global NCAP standard.
- Regarding the NHTSA rating, there are many reasons an OEM may choose to not design to a 5 star level, as it is not a federal mandate.

*TR0101-06* – Number of (1) defect complaints and (2) safety-related complaints, percentage investigated

*TR0101-07* – Number of vehicles recalled

- The methods, definitions, and regulations for identifying and monitoring complaints and managing vehicle recalls vary considerably across regions and markets. For this reason, I do not offer much confidence that a meaningful SASB standard can be established for use by the global automotive sector.
- Given these many inconsistencies and variations, however, one possible starting point (albeit US-specific) may be the NHTSA website for recalls. We would need to focus only on the data already provided, which essentially is the number of vehicles involved in each recall and a brief description of the recall issue. Again, this would still be NHTSA based, with the attendant regional bias.

### 6. Fuel Economy and Use-Phase Emissions

*TR0101-08* – Sales weighted average passenger fleet fuel economy

- While use-phase emissions is arguably one of the most material nonfinancial metrics in the automotive sector, the problem remains that there is no global standard for fuel economy and use-phase emissions. In Europe CO2 generation is emphasized, whereas in the US and Canada fuel economy is the focus (although with differences in fuel volume measurement units). There are also variations on the reporting years (calendar year versus model year).
- A possible solution may be to report CO2 regionally; and given SASB's US orientation, it may also be acceptable to report the US domestic passenger car/import and light duty truck fuel economy in miles per gallon (for NHTSA model year).

## W. L. Hall Response to SASB Automobiles (TR0101)

- Overall, given the high degree of regulations already existing in this area, SASB should focus its efforts on using existing, publicly available data.

*TR0101-09* – Number of (1) Zero Emission Vehicles (AEV) sold and (2) Partial Zero Emission Vehicles (PSZEV) sold

- Some OEMs may consider reporting the number of ZEV and PZEV vehicles sold worldwide as proprietary information.

### 7. Product End-of-Life Management

*TR0101-10* – Average recyclability of vehicles sold, by weight

- Any efforts to standardize a reporting metric will be met with many complications. For example, determining the weight of remanufactured parts is difficult, as it could range from components that are reworked prior to original sale to parts that are subsequently rebuilt for resale. Additionally, other than Europe, where disclosures of recyclability and recoverability are mandatory, there are no systems in place to capture and report the necessary data.
- That being said, in the U.S. there is a robust system of independent auto dismantling operators (approximately 9,000) that handle this function. Every year end-of-life vehicles produce more than 14 million tons of steel among other materials that can be reused and recycled (source: [www.autoalliance.org](http://www.autoalliance.org)).
- .48 and .49 – Disclosing technologies and methods in the product development processes for optimizing vehicle recycling rates is proprietary and I do not support this requirement.
- In summary, while I strongly support product end-of-life initiatives, I do not feel it needs to be a reporting topic for OEMs.

### 8. Supply Chain Management

*TR0101-11* -- Percentage of products by revenue that contain critical materials

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

- These two sections are both directed toward supply capability risk, which has a more direct and measurable impact on financial performance than does, for example, environmental or human rights concerns. For that reason, my feeling is that OEMs are already addressing these types of risks in the current 10K filings (under “Risk Factors”).
- In these filings, the types of parts supply concerns are cited and the means for mitigating the risks are described. It is unlikely that the degree of detail proposed by SASB is provided, however, as OEMs would view that information as proprietary.
- For these reasons I do not believe these two sections should be included in the standard.

*TR0101-12* -- Percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified to be conflict free

- While I can appreciate why SASB is attempting to leverage the Dodd-Frank Conflict Minerals legislation to support the SASB standard, the fact is, at this stage our industry is still far from

## W. L. Hall Response to SASB Automobiles (TR0101)

having accurate and comprehensive data to report. Below are specific areas of clarification and concern:

- The header sentence should state “smelters and/or refiners.”
  - .53 – Providing an accurate calculation for this standard is very unlikely at this time. While there is a defined list of verified conflict-free smelters or refiners, the total known group of non-verified smelters or refiners is still very much unclear; the figure may range from 600-1200.
  - .54 -- Dodd-Frank Section 1502 and the rule promulgated by the SEC do not contain a smelter audit standard. This is an industry driven initiative created in response to Dodd-Frank. Therefore it is premature to state, “or program that meets the conflict minerals provisions of Dodd-Frank.”
  - .55 -- A smelter or refiner should only be considered part of the supply chain when it is actually providing materials, not merely approved to do it. Therefore the statement, “or is approved to supply 3TG,” is not useful.
- At some point in the future, when the Conflict Minerals procedures and metrics mature, we will want to avoid redundancy in the disclosure process; in other words, reporting firms should not be required to create a SASB-driven document as well as a Dodd-Frank CM submission that both convey the same data.

### 9. Fair Lending

*TR0101-14* – Median discretionary interest rate mark-up on automotive loans for: (1) all borrowers, (2) women, and (3) minorities

- This metric is based on a false premise: “Automobile manufacturers have financial arms that provide loans for car purchases through dealerships.” Not all OEMs have a captive finance company.
- Even if there is an effort to report on fair lending, we would encounter difficulties in dealing with the voluntary nature of lender reporting for such elements as minority classifications. I recommend removing this measure from the proposed standard.

### 10. Activity Metrics

It is important to provide the specific definition of “Number of vehicles produced” and “Number of vehicles sold” as I have found that confusion can occur:

- Vehicle production is typically counted when the vehicles exit the assembly line and receive final inspection and any required rework or repairs. Usually these vehicles are promptly prepared for shipping via truck or rail. The distinction is made between “production” and “shipments” because usually only when vehicles are shipped is revenue recognized by the manufacturer.
- Vehicle sales can have a number of designations, including: units sold from the OEM to the wholesaler; units shipped from the plant to a third party shipper (for overseas shipments); units sold by a wholesaler/dealer to a consumer (in the US and Canada, this is the most common

## **W. L. Hall Response to SASB Automobiles (TR0101)**

usage); units shipped to a rental car or leasing company (keeping in mind that some rental car company agreements entail the return of the vehicles to the OEM for auction). For financial reporting, the most common practice is to report vehicle shipments, defined as when the vehicle title transfers to the recipient, thereby creating the payment obligation. Additionally, retail sales (i.e. from a retailer to an end-consumer) is regularly used by OEMs and analysts, particularly in conjunction with dealer inventory, as a means of comparing relative vehicle popularity.



**Airlines for America™**  
We Connect the World

July 17, 2014

Sustainability Accounting Standards Board  
75 Broadway  
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San Francisco, CA 94111

Filed electronically via [comments@SASB.org](mailto:comments@SASB.org)

**Re: Proposed Transportation Sustainability Accounting Standards – Airlines and Air Freight & Logistics Sectors**

To Whom It May Concern:

Airlines for America (“A4A”) appreciates the opportunity to comment on the Sustainability Accounting Standards Board’s (SASB) proposed Sustainability Accounting Standards for Airlines and the Air Freight & Logistics sectors. A4A is the principal trade and service organization of the U.S. scheduled airline industry, and its member airlines and their affiliates transport more than 90 percent of all U.S. airline passenger and cargo traffic.<sup>1</sup> A4A members have a strong environmental record and have demonstrated that they are committed to sustainable aviation growth. For example, the Federal Aviation Administration (“FAA”) confirms that between the mid-1970s and 2012, U.S. airlines reduced the number of people exposed to significant levels of aircraft noise by 95%, while tripling enplanements. Further, U.S. airlines improved their fuel efficiency by 120 percent between 1978 and 2013, saving 3.6 billion metric tons of CO<sub>2</sub>. Significantly, U.S. airlines carried seventeen percent more passengers and cargo in 2013 than they did in 2000 while emitting eight percent less CO<sub>2</sub>. Going forward, our members are aggressively pursuing additional emission reduction opportunities and are part of a global aviation coalition that has committed to 1.5% annual average fuel efficiency improvements through 2020 and carbon neutral growth from 2020, subject to critical aviation infrastructure and technology advances achieved by government<sup>2</sup> and the broader aviation/aerospace industry. A4A members also have a tremendous record on the other areas

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<sup>1</sup> A4A members are: Alaska Airlines, Inc.; American Airlines Group (American Airlines and US Airways); Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation.; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Continental Holdings, Inc.; and United Parcel Service Co. Air Canada is an associate member.

<sup>2</sup> A critical component of aviation infrastructure is the Air Traffic Control (“ATC”) system, which the U.S. Government, through the FAA, owns and operates. The FAA is making a transformational change from 1950s radar-based technology to 21<sup>st</sup> Century satellite-based technology which, when completed and implemented as envisioned, will produce significant environmental benefits, including reduced fuel consumption and emissions.

that SASB proposes to cover. For example, with safety as our number one priority, commercial air travel is the safest form of intercity transportation in the United States.

A4A's members currently report voluntarily on numerous environmental, social and governance ("ESG") sustainability metrics through annual or biennial sustainability reports. These reports are widely disseminated through company websites and are developed to communicate corporate sustainability performance and goals to a broad variety of interested stakeholders, including investors, employees, customers, industry stakeholders and NGOs. A4A members engage with stakeholders in determining appropriate topics for inclusion and have continuously improved the depth and quality of their sustainability reports, with reports routinely including quantitative data and goals for metrics for which it is feasible.

A4A members also include relevant sustainability information in SEC filings if the company has determined that the specific information is required to be reported by applicable SEC rules and regulations as material to investors making an investment decision. Thus, A4A members already report—and will continue to report—required material information to investors, whether it is related to sustainability or to more traditional financial performance metrics. Given that much of the sustainability information currently included in sustainability reports outside of SEC filings is not material to investors making an investment decision, A4A's position is that the most appropriate vehicle for sustainability information continues to be through separate comprehensive sustainability reports, which is also where interested stakeholders have grown to expect to find the information. Our considered opinion, based on experience and stakeholder engagement, is that it is inappropriate to combine such information, where not required and not material, with the financial and other investor disclosures required in SEC filings, which carry potential liabilities under federal securities laws.

While we appreciate that SASB has included language clarifying that its proposed sustainability metrics are intended to be used only as guidance outlining potentially material sustainability metrics, A4A has substantial concerns that SASB standards would unnecessarily complicate SEC reporting, intrude upon company-specific materiality determinations and cause confusion for the public. Below we offer general comments on the inclusion of SASB standards in SEC filings and comments on the aviation-related ESG metrics proposed by SASB for both the Airline and Air Freight & Logistics sectors.<sup>3</sup>

## I. SEC Reporting

A4A has significant concerns with the potential impacts of voluntarily including SASB sustainability metrics in SEC filings where the information underlying such metrics and the specific metrics themselves may not be material to investors. Even though posed by SASB as a "voluntary" exercise, voluntary inclusion of such information could create potential confusion among investors as to the appropriate comparability among companies in the same industry.<sup>4</sup> Moreover, including such information in SEC filings would potentially expose A4A members to additional legal liabilities.

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<sup>3</sup> A4A represents its members on issues specific to air transport. Thus, we have limited our comments on the SASB proposals to the air transport issues. A4A members with ground freight operations may comment on those ESG metrics separately.

<sup>4</sup> SASB appears to have as a goal enabling investors to compare companies with respect to sustainability. However, the premise that such a comparison is material for purposes of making an investment decision substantially alters the concept of materiality as used in the SEC reporting context. While some sustainability issues may be of interest to some investors, whether a specific set of facts rises to the level of materiality depends on many factors that are unique to each company. Materiality does not lend itself to the type of "comparison shopping" SASB seems to be promoting in these proposed standards.

SEC reporting companies are only required to disclose information specified in SEC rules, regulations and industry guides, including any additional material information necessary to make the required disclosures, in light of the circumstances in which they are made, not misleading. While it is possible that some of the metrics proposed to be included in SEC filings under the SASB sustainability standards could be material information for investors of particular companies in certain circumstances, A4A believes that for most companies the disclosure of such metrics is not expected to be material to an investment decision.

Although there is no specific SEC line item disclosure requirement expressly associated with “sustainability” matters, the SEC is aware that there may be circumstances in which companies would be required to include material information related to a sustainability issue in SEC filings. For example, the SEC recently offered guidance on the inclusion of disclosures related to climate change.<sup>5</sup> In its guidance, the SEC noted that it was not creating any new disclosure requirements, nor was it modifying existing ones. Rather, the SEC’s guidance simply identified existing requirements where material climate change impacts could trigger disclosure, thus continuing to leave the decision concerning the appropriate level of reporting on that topic to the companies themselves. The SEC also noted that non-SEC filings, such as sustainability reports, “can provide important information to investors outside of the disclosure documents filed with the Commission...” and that “some of the information they may be reporting pursuant to these mechanisms also may be required to be disclosed in filings made with the Commission.”<sup>6</sup> Although it is clearly aware of the broad range of information included by companies in sustainability reports, at this time the SEC has chosen to offer guidance only on climate change-related disclosures. That is a consistent and appropriate judgment by the SEC. A4A does not believe, however, that it is consistent with SEC guidance or appropriate for a non-governmental entity such as the SASB to interpret the SEC’s silence as an invitation to stand in the shoes of a government regulator and issue guidance and voluntary sustainability standards. If anything, the SEC’s silence on sustainability issues beyond climate change indicates that it does not believe further guidance is needed for registrants to make company-specific materiality determinations.

A4A also believes it is inappropriate to attempt to push all companies in a particular industry, regardless of how their businesses are operated, to disclose the same sustainability metrics as outlined in SASB’s exposure drafts. SASB’s proposal does not take into account the fact that each company within a given industry is different and has different factors that affect its business. For example, for some companies, topics such as the amount of legal and regulatory fines associated with labor law violations may be material in a given period if there has been a particular development. However, an industry standard that all industry participants disclose the same information is likely to result in confusion, as investors would not understand why a company with clearly immaterial information on this topic is including that information in an SEC filing and may therefore attribute more importance to it than is necessary or appropriate.

Moreover, this “one-size-fits-all” approach is inconsistent with the SEC’s reporting framework, which recognizes that companies are different, even in the same industry. For example, SEC-reporting companies report information on a segment basis to the extent appropriate for an understanding of the business.<sup>7</sup> Business segments are components of a business whose operating results are reviewed by the company’s chief operating decision maker for purposes of making decisions as to how resources are to be allocated and to assess the segment’s performance.<sup>8</sup> Accordingly, identification of segments is

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<sup>5</sup> See Commission Guidance Regarding Disclosure Related to Climate Change; Final Rule. 75 Fed. Reg. 6290 (February 8, 2010).

<sup>6</sup> *Id.* at 6292.

<sup>7</sup> Regulation S-K, Item 303(a), 17 CFR 229.303.

<sup>8</sup> Financial Accounting Standards Board, Accounting Standards Codification Topic 280-50-1.



specific to how each company's management assesses the business, and companies in the same industry often report using segments that differ from company to company, taking into account geographic, product line, customer and other considerations. SASB's proposal would take the opposite approach, establishing a rigid reporting structure for companies.

Including a discussion of sustainability issues in the Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") would conflict with SEC guidance urging registrants to streamline the MD&A section. The SEC has stressed that management should focus only on material information and "eliminate immaterial information that does not promote understanding of registrants' financial condition, liquidity and capital resources, changes in financial condition, and results of operations."<sup>9</sup> Most recently, the SEC issued a report recommending a comprehensive approach to streamlining of disclosure requirements.<sup>10</sup> Adding an entire additional section to the MD&A on sustainability, as proposed by SASB, would undermine the effectiveness of the MD&A by encouraging precisely the information overload that the SEC has cautioned against.

Companies that voluntarily include sustainability information in their SEC filings also potentially subject themselves and other market participants to unnecessary and increased liability under federal securities laws. Under several provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, issuers and other participants in an issuer's capital market activity may take on liability for false and misleading statements in SEC filings, including those that are incorporated by reference into offering documents in connection with securities offerings.<sup>11</sup> Further, many of the proposed metrics, such as numbers of incidents and safety and security complaints, are not tied to a company's books and records, and therefore are not the subject of formal standards, which heightens the difficulty companies would face in ensuring that inclusion of such metrics would not expose them to heightened liabilities.

For all of these reasons, A4A recommends that SASB withdraw the proposed Sustainability Accounting Standards for the Airlines and Air Freight & Logistics sectors.

## II. Comments on the Specific Topics and Metrics

In addition to having concerns about the implications of the SASB proposals with respect to securities reporting protocols, A4A also has concerns regarding many of the specific topics and metrics that SASB has proposed for the Airlines and Air Freight & Logistics sectors. In general, our concerns include such issues as whether the information would be relevant to investors, the reporting of certain metrics out of meaningful context and the potential for confusion. Further, where certain topics and/or metrics are relevant and material, they are already reported. Additional guidance from SASB is not needed and the potential for confusion and conflict with SEC reporting provisions attendant to the adoption of a SASB standard outweighs the potential value of any such standard. We detail our specific concerns below with reference to the particular topics and metrics proposed.

### A. Environmental Footprint of Fuel Use

Fuel is the single biggest cost for airlines, accounting for over one-third of operating costs. Given that reduced fuel use directly translates to GHG reductions, airlines' economic and environmental interests in minimizing fuel use are perfectly aligned. A4A members have a strong record of GHG reductions through fuel efficiency improvements and have committed to further 1.5% average annual fuel efficiency

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<sup>9</sup> *Id.* at 6294, citing Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operation, 68 Fed. Reg. 75056 (December 29, 2003).

<sup>10</sup> Sec. & Exch. Comm'n, Report on Review of Disclosure Requirements in Regulation S-K (December 2013), available at <http://www.sec.gov/news/studies/2013/reg-sk-disclosure-requirements-review.pdf>.

<sup>11</sup> See 15 U.S.C. § 77k, 77l; 15 U.S.C. § 78r.

improvements through 2020 and carbon neutral growth from 2020, subject to critical aviation infrastructure and technology advances achieved by government and industry. A4A members already include extensive discussions of numerous fuel related issues in their SEC filings, including issues such as fuel use, fuel supply, fuel efficiency/savings and price volatility/fuel hedging to the extent that such issues are material. As such, additional reporting metrics for fuel use will not further contribute to investor understanding. Below we offer specific comments on the proposed SASB metrics for the environmental footprint of fuel use.

1. Gross global Scope 1 emissions (Code TR0201-01,TR0202-01)

The proposed metric would be duplicative of information already reported elsewhere and would not provide decision-useful information to investors. A4A members are required to report total jet fuel use, which accounts for the vast majority of airline GHG emissions, to the U.S. Department of Transportation ("DOT") on "Form 41." U.S. airlines also typically include fuel use in their SEC filings. Many airlines also report total global scope 1 GHG emissions in their sustainability reports along with contextual information on GHG emissions. While jet fuel use may be material to investors, total scope 1 emissions, which is just a gross emissions number without context that includes both emissions from jet fuel and relatively small emissions from numerous other sources, very likely is not.

Reporting of gross scope 1 emissions in SEC filings also would not facilitate useful comparisons within the industry, as the gross emissions will vary significantly according to the size of the airline operations. Accordingly, at most, reporting gross emissions would only serve to suggest to investors the relative size of airlines, which is better gleaned through more detailed data reported on airline operations.

Finally, reporting of global scope 1 emissions is not a useful metric for investors because of the large variability in emissions that can occur due to yearly traffic and market share fluctuations. As such, this metric does not meet the minimum criteria for SASB's Principle for directional clarity. A year-over-year rise in total emissions may only be indicative of greater traffic and not an indicator of poor sustainability practices, while a drop in total emissions may indicate a drop in overall industry traffic, a company-specific decline in market share, or an improvement in the efficiency of the fleet. Without context, reporting of total emissions is likely to mislead investors and invite uninformed and unfair conclusions by outside observers.

2. Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emission reduction targets, and analysis of performance against those targets (Code TR0201-02)

As noted above, the airline industry has a strong record of emissions reductions and has made aggressive short term and long term commitments to reduce emissions. In the short term, A4A members are part of a global aviation coalition that has committed to 1.5% average annual fuel efficiency improvements through 2020 and is closely tracking performance against this goal. In the longer term, A4A members support the shared global aviation industry and International Civil Aviation Organization ("ICAO") goal of carbon neutral growth from 2020, subject to critical aviation infrastructure and technology advances achieved by government and industry. To the extent that A4A members determine on a company-specific basis that this information is material to investors, the information is included in SEC filings.

3. Total fuel consumed, percentage renewable (Code TR0201-03,TR0202-02)

As previously noted, total jet fuel consumed is already commonly reported in the industry. The metric proposed by SASB, total fuel consumed from all sources, would add confusion by combining non-material fuel usage with jet fuel usage.

With regard to renewable fuel, A4A and its members support alternative fuels as a means to reduce emissions, hedge against the price volatility of fossil fuels and enhance energy security. A4A is a founding member of the Commercial Aviation Alternative Fuel Initiative<sup>®</sup> (“CAAFI”), a consortium of airlines, government, manufacturers, fuel suppliers, universities, airports and others working to hasten the development and deployment of such fuels. A4A also is a principal in the Farm to Fly Initiative. Since 2010, we have worked with the U.S. Department of Agriculture, Boeing and other stakeholders to align U.S. biofuels agricultural policy, which up to then had almost entirely been focused on the production of biofuels for automobiles and trucks, to support advanced aviation alternative fuels. While A4A and its members are working hard to lay the groundwork for alternative aviation fuels, as customers, A4A members have little control over the supply of alternative aviation fuels, which currently are not available in significant quantities (and are not price competitive). Thus, whether a U.S. airline uses renewable fuel and the degree of any such use currently is not material for SEC purposes. In addition, we believe a standard directing that renewable fuel use be reported would invite unfair comparisons between the airline industry (which has extremely limited access to renewable fuel) and other industries that can readily obtain significant quantities of renewable fuel. Finally, the proposed metric inappropriately focuses on the percentage of renewable fuel without regard to the GHG performance of those fuels.

#### 4. NO<sub>x</sub>, SO<sub>x</sub>, and PM emissions (TR0202-03)

This metric was only included for the air freight and logistics sector. A4A members only fly aircraft that are fully compliant with relevant engine standards developed by ICAO and adopted by the U.S. Environmental Protection Agency (EPA). Accordingly, this metric will not be of material significance to investors. Also, it is a relatively meaningless metric out of context. NO<sub>x</sub>, SO<sub>x</sub> and PM are emissions that can have local air quality impacts. Whether those impacts are significant in either regulatory or environmental terms depends not only on the quantity of the emissions but on the status of the area in which they are emitted in terms of the National Ambient Air Quality Standards, area-specific conditions, dispersion and other factors. Thus, the SASB proposal for reporting these emissions would not provide useful information to investors – to the contrary, reporting these emissions as suggested is likely to foster confusion.

### **B. Passenger Safety**

Safety is the number one priority for A4A members. Airlines work collaboratively with the FAA, the National Transportation Safety Board (“NTSB”), manufacturers, employees, labor groups and others to ensure the safety of passengers and crew members. A4A participates in a number of aviation industry initiatives including the Commercial Aviation Safety Team (“CAST”) initiative, which seeks to continuously improve aviation safety. From 2008 - 2012, scheduled air service on U.S. airlines was 42 times safer than in the 1970s. While we continue to collaborate and support improvements in aviation safety, we express the following concerns with regards to the Passenger Safety metrics:

1. Number of safety risks and hazardous situations, percentage attributable to: (1) aircraft issues, (2) human factors, (3) other (Code TR0201-04, TR0202-10)

The U.S. airline industry in conjunction with the FAA today operates under a philosophy that voluntary reporting and comprehensive risk analysis, enhanced by innovative technologies, leads to optimal safety strategies and continuous improvements. Many of our members have adopted Aviation Safety Action Programs (“ASAP”) and Safety Management Systems (“SMS”) to identify safety risks and design process improvements to mitigate those risks. Several issues would arise if such information was disclosed, even in aggregate form.

First, between each company distinctions exist as to segment participation, terminology, process, and system software, which could lead an ASAP or SMS program to identify a safety risk that another system does not. These distinctions would obscure comparability and may create misleading data points. As such, this metric does not meet the minimum criteria of SASB’s Principle of comparability. Second,

between systems the threshold of information disclosed under ASAP or identified as an unacceptable risk under a company's SMS program varies, which could again create misleading data as to the company's safety record. Third, underpinning effective ASAP and SMS programs is a confidential safety reporting culture, which this metric would undermine. Public disclosure of ASAP data is protected by law on the grounds that "[t]he FAA finds that disclosure of the information would inhibit the voluntary provision of that type of information."<sup>12</sup> <sup>13</sup>Fourth, as discussed above with respect to environmental metrics, safety risk data has no meaning without context and experience. Reporting gross numbers of "safety risks" and "hazardous situations" without context likely would mislead investors as to the overall safety of a particular company and invite uninformed comparisons between companies.

Finally, the SASB proposal overlooks the critical fact that the FAA ultimately determines if an airline is meeting its obligation to operate safely. An airline either maintains an FAA operating certificate or it does not. There is no middle ground. Reporting on a group of safety metrics, out of context, will create confusion not only about the safety of a company, but also about the role of the FAA and its oversight of publicly traded U.S. airlines.

2. Number of exceedances identified through Flight Operations Quality Assurance ("FOQA") and Flight Data Monitoring ("FDM") (Code TR0201-05, TRO202-11)

Many of A4A's members share FOQA data under Implementation and Operation plans with the FAA. An effective FOQA program relies on a confidential safety reporting culture, which this metric undermines. The FAA itself describes such confidentiality as "[a] cornerstone of this program...."<sup>14</sup> Public disclosure of FOQA data is protected by law.<sup>15</sup> The concerns noted immediately above apply with equal weight to this metric.

3. Number of accidents and incidents (Code TR0201-06)

Such information is captured by existing reporting mechanisms requiring companies to report accident and incident data to the NTSB.<sup>16</sup> The NTSB provides a searchable form available to the public to disclose this information.<sup>17</sup> Those accidents or incidents below the threshold of NTSB reporting are available through the FAA's Aviation Safety Information Analysis and Sharing database.<sup>18</sup> Consequently, SASB's proposed metric is duplicative of companies' current reporting requirements. Any material information related to accidents or incidents reported to the NTSB is reported in the ordinary course of a company's securities filings.

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<sup>12</sup> 14 CFR 193 *et seq.*

<sup>13</sup> Notice of order designating ASAP information as protected from public disclosure under 14 CFR part 193, 68 Fed. Reg. 54767 (Sept. 18, 2003).

<sup>14</sup> *Flight Operational Quality Assurance*, Federal Aviation Administration, Advisory Circular No. 120-82 (April, 12, 2004).

<sup>15</sup> 14 CFR 193 *et seq.*

<sup>16</sup> 49 CFR 830.5.

<sup>17</sup> *Accident Database & Synopses*, available at: <http://www.nts.gov/aviationquery/> (June 24, 2014, 10:30 AM).

<sup>18</sup> *FAA Aviation Safety Information Analysis and Sharing (ASIAS)*, available at: <http://www.asias.faa.gov/pls/apex/f?p=100:2:0::NO> (June 24, 2014, 10:40 AM).

4. Number of safety and security complaints (Code TR0201-07)

Here, we assume SASB means customer complaints received by airlines. This is a particularly uninformative metric as such reporting is, in the first instance, completely subjective. One customer's definition of a safety or security issue may differ significantly from another's. Moreover, there is no industry standard for tracking and reporting such complaints. Developing and implementing such a standard just for this function would be an inefficient use of resources.

Additionally, such complaints standing alone, much less reported without context, would not provide meaningful information for investors about the safety of an airline. And because such reports are subjective in nature, they do not provide a rational basis for attempting to compare one airline to another.

5. Number of governmental enforcement actions of aviation safety regulations (Code TR0201-08, TR202-12)

Such information is disclosed by the FAA and compiled on a quarterly basis.<sup>19</sup> The FAA's enforcement database captures "all enforcement actions against aviation entities that involve safety issues and are closed with a civil penalty or issuance of an order of certificate suspension or revocation."<sup>20</sup> Consequently, SASB's proposed metric is duplicative of current disclosure mechanisms. Any material information related to FAA enforcement actions is reported in the ordinary course of a company's securities filings.

### C. Passenger Rights

A4A members are committed to providing quality customer service to the millions of passengers who daily travel by air safely, efficiently and economically. We note that the metrics under this topic do not capture additional information beyond what it is currently available to investors.

1. Number of airline service complaints (Code TR0201-09)

Such information is disclosed by the DOT and compiled on a monthly basis in the Air Travel Consumer Report.<sup>21</sup> Consequently, SASB's proposed metric is duplicative of current disclosure mechanisms. Any material information related to the number of airline service complaints is reported in the ordinary course of a company's securities filings.

2. Number of governmental enforcement orders of passenger rights regulations (Code TR0201-10)

Such information is already disclosed by the DOT.<sup>22</sup> Consequently, SASB's proposed metric is duplicative of current disclosure mechanisms. Any material information related to the number of governmental enforcement orders regarding passenger rights regulations is reported in the ordinary course of a company's securities filings.

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<sup>19</sup> *Understanding the Report*, available at: [www.faa.gov/about/office\\_org/headquarters\\_offices/agc/operations/agc300/Reports/understanding/view/understanding.pdf](http://www.faa.gov/about/office_org/headquarters_offices/agc/operations/agc300/Reports/understanding/view/understanding.pdf) (June 23, 2014, 8:30 AM).

<sup>20</sup> *Id.*

<sup>21</sup> *Air Travel Consumer Report: Issued June 2014*, available at: <http://www.dot.gov/sites/dot.gov/files/docs/2014JuneATCR.pdf> (June 23, 2014, 12:20 PM).

<sup>22</sup> *Aviation Enforcement Orders*, available at: <http://www.dot.gov/airconsumer/enforcement-orders> (June 23, 2014, 12:35 PM).

## **D. Talent and Diversity**

A4A members believe that strong labor relations will ensure a robust safety culture, quality customer service and optimal performance. Nonetheless, we do not believe the SASB proposal for SEC reporting on various labor metrics is necessary or appropriate.

### **1. Annual target for new pilot hiring (CodeTR0201-11)**

Pilot hiring projections are speculative and unreliable. Companies consider a variety of factors in making pilot hiring decisions including: economic growth in the United States and in foreign markets, military engagements requiring reserve pilots, higher utilization and load factors, and shifts in marketing and fleet. Even within these factors, significant distinctions remain between companies that would make this metric of little utility. Moreover, A4A's members benefit from a large pool of qualified candidates with air transport certifications. In recent years, pilot hiring by A4A members dropped below 200 per year versus an estimated pool of 50,000 active pilots.

### **2. New pilots hired, percentage women, percentage minorities (Code TR0201-12)**

To the extent that A4A members determine on a company-specific basis that this information is material to investors, the information is included in SEC filings.

### **3. Percentage of gender and racial/ethnic group representation for: (1) pilots and (2) all others (Code TR0201-13)**

To the extent that A4A members determine on a company-specific basis that this information is material to investors, the information is included in SEC filings.

### **4. Amount of legal and regulatory fines and settlements associated with labor law violations (Air Freight and Logistics Code TR0202-06)**

Air carriers are exempted from many of the provisions of the Fair Labor Standards Act, including the minimum wage and maximum hour requirements.<sup>23</sup> To the extent that A4A members determine on a company-specific basis that this information is material to investors, the information is included in SEC filings.

## **E. Competitive Behavior**

### **1. Amount of legal and regulatory fines and settlements associated with anti-competitive practices (Code TR0201-014)**

To the extent that A4A members determine on a company-specific basis that this information is material to investors, the information is included in SEC filings.

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<sup>23</sup> 29 U.S.C. § 213(b)(3).

**III. Conclusion**

Based on the above, we urge SASB to withdraw the proposed standards for the Airlines and Air Freight & Logistics sectors. Thank you for your consideration.

Very truly yours,



David A. Berg  
Senior Vice President & General Counsel  
AIRLINES FOR AMERICA

Sustainability Accounting Standards Board  
75 Broadway, Suite 202,  
San Francisco, CA 94111  
USA

Amsterdam, 14 July 2014

Dear Sir / Madam,

I am responding in relation to the consultation on the proposed reporting standards for the transport sector as published on April 18<sup>th</sup>. Please consider this response as collective across all five transport standards that are open for consultation.

Our remit at the Global Logistics Emissions Council is, as the name suggests, focused on emissions, and so our comments should be considered only in respect of the topic “Environmental Footprint of Fuel Use”.

The rest of our response is composed in two parts:

1. Our technical response
2. A brief explanation of the Global Logistics Emissions Council and why we feel qualified to comment

Kind regards,

Alan Lewis  
Manager, Global Logistics Emissions Council



## Comments on SASB proposed transportation reporting standards

1. The focus on overall total scope 1 emissions is a sensible starting point.
2. It is good also to see reference made to emissions of pollutants that have a negative influence on local air quality
3. It is somewhat surprising that you only ask for a description of a long term plan to reduce emissions of the airlines. This sort of plan can and should be in place for all transport sectors.
4. The inclusion of biofuels in the reporting is essential. However, our feeling is that more clarity is required as to which biofuels are considered as 'acceptable' or 'sustainable', given the ongoing debate about indirect emissions due to land use change. Also, the amount of biofuel consumed as a percentage of the total by energy does not fully quantify the impact because different biofuels have different emissions life-cycle impacts. It would be good if this point could be clarified.
5. In respect of road transportation, is there a clear reason why light vans are excluded from the calculation as the trend appears for this type of vehicle to be used in ever increasing numbers for urban distribution as a result of the impact of internet shopping?
6. In respect of these metrics it is somewhat surprising that reference to calculation methodologies is limited to the GHG Protocol and CDP. There are well-established methodologies and industry programmes such as SmartWay, originally only for US road freight transport but now expanding to other modes and active in Canada and the recommended practice for airlines to calculate their carbon footprint recently published by IATA

## Introduction to the Global Logistics Emissions Council

The Global Logistics Emissions Council (GLEC) of industry led/backed initiatives and leading shippers and companies involved in freight movement was established end 2013 to meet industry demands for alignment between initiatives in order to achieve harmonized methodologies for carbon accounting across the global multimodal supply chain.

The GLEC aims to achieve:

- A common industry vision statement regarding methodologies and broader green freight
- Globally harmonized methodologies (Global Framework for Freight Emissions Methodologies) for measurement and reporting of emissions from freight movement applicable to all modes, nodes (warehousing, transfer points etc.) and global regions within the transport supply chain
- Alignment of industry led/backed initiatives across modes and global regions
- Active engagement and communication with the entire global freight sector and other key stakeholders, e.g. government, scientific/research institutes, NGOs, development agencies, which includes positioning the work of the GFEC within a wider portfolio of programs aimed at increasing freight sector efficiency.

The GLEC will have been successful if by the end of 2014 it has achieved the following:

- A base Global Framework for Freight Emissions Methodologies used for measuring and reporting of freight emissions covering all modes, nodes and global regions and practical to use
- A roadmap to fill gaps and address ambiguities in order of priority and with clear timelines from 2015-2016, milestones, roles and resources
- Possible mechanisms for optimizing the acceptance and use of the Global Framework by industry, government and other players and a plan for the development/deployment of priority mechanisms

The centerpiece of the work is the development of a Global Framework of Freight Emissions Methodologies that achieves widespread acceptance accompanied by application to scale. The alignment of initiatives starts with the methodology alignment and can be expanded to other areas in time (e.g. labelling schemes, support to carriers etc.). Similarly, the engagement and communication with the broader freight sector and stakeholder groups and positioning of the GLEC's work will initially primarily focus on the methodology alignment.

The ultimate aim is to ensure that:

- Shippers and companies involved in freight and logistics have effectively incorporated emissions in a harmonized fashion for different purposes, including carrier selection, reporting (e.g. Carbon Disclosure Project) and reducing emissions in their supply chain
- Governments and other stakeholder groups actively support/facilitate this

The GLEC structure consists of the overall GLEC council of members, specific Action Groups, a Secretariat hosted by Smart Freight Centre (SFC), and participation of industry and other stakeholder groups.



**CHAMBER OF SHIPPING OF AMERICA  
1730 RHODE ISLAND AVENUE, NW  
SUITE 702  
WASHINGTON, DC 20036**

July 17, 2014

**Via: Email to** [REDACTED]

Sustainability Accounting Standards Board (SASB)  
75 Broadway  
Suite 202  
San Francisco, CA 94111

**RE: Comments on the Draft SASB Sustainability Accounting Standards for Marine Transportation, SICS #TR0301, April 2014 Exposure Draft for Public Comment**

Dear Sir or Madam:

The Chamber of Shipping of America (CSA) appreciates the opportunity to comment on the proposed SASB Sustainability Accounting Standard for Marine Transportation (April 2014 Exposure Draft for Public Comment).

CSA represents 34 U.S. based companies that own, operate or charter oceangoing tankers, container ships, and other merchant vessels engaged in both the domestic and international trades. The Chamber also represents other entities that maintain a commercial interest in the operation of such oceangoing vessels. A number of our member companies' stocks are traded on US exchanges and thus would be impacted by any final SASB standard if it were to be incorporated into standardized accounting practices to be applied to any legally required filings by the SEC.

We would first like to support in concept the need for a reliable, accurate, transparent and verifiable system to measure corporate performance for both financial information and sustainability information but only if that system provides useful, reliable and relevant information to the public, including investors. As noted in the SASB document entitled "Introduction – SASB Sustainability Accounting Standards" (January 14, 2014 revision), we note in the purpose and structure section that SASB states relative to making disclosure on sustainability topics that "companies adopting SASB's accounting standards will help to ensure that disclosure is **standardized and therefore useful,**

**relevant, comparable and auditable**” (our emphasis added). Regrettably, we do not believe the draft standard on marine transportation meets any of these criteria to the degree necessary to provide statistically relevant, accurate and comparable results across reporting entities in the marine transportation industry.

Having reviewed both the draft exposure standard for marine transportation and the more general SASB document entitled “Introduction – SASB Sustainability Accounting Standards” (January 14, 2014 revision), we wish to provide the following comments of both a general and specific nature.

### **General Comments**

- Marine transportation is a global industry and companies which engage in marine transportation must necessarily interface with a number of legal jurisdictions and thus any process or program which would apply to the marine transportation industry as a whole should be normalized and standardized with respect to the global nature of this industry. For example, a company’s securities may be traded on more than one global exchange, its vessels may be owned or operated by specific subsidiaries with headquarters in different nations, its vessels may be flagged (registered) in multiple flag states, its crews may be of different nationalities and, of course, by the very nature of our business, its vessels will call in countries world-wide.
- The commercial agreements which govern the carriage of goods by sea vary widely. Vessels may run a fixed transit loop set by its owner as is typically the case with container ships. Other vessels may be chartered to another party on either a voyage or time basis (“spot charter” or “voyage charter”) in which case the route of the vessel, its operational parameters and generally the control of that vessel and its cargo is determined by the 3<sup>rd</sup> party charterer.
- Due to the issues noted above, the global maritime industry has looked generally to the International Maritime Organization (IMO) and other international organizations e.g. International Standards Organization (ISO), International Accounting Standards Board (IASB), International Labor Organization (ILO), to establish effective and consistent processes and programs which could be applied to the marine transportation industry taking into account the diversity of interests in various aspects of vessel ownership, operations, design and construction, safety, responsible environmental performance and even financial reporting (as evidenced by several initiatives involving marine transportation taken on by the IASB). See also a recent initiative memorialized in a report entitled “Framework and Suggested Indicators to Measure Sustainable Development” prepared by the Joint UNECE/Eurostat/OECD Task Force on Measuring Sustainable Development, May 27, 2013 at <http://www.oecd.org/greengrowth/41414440.pdf>. While this initiative is broad based and does not focus particularly on marine transportation, the report does outline the basic framework which should be used before developing any industry specific standards and measurement metrics.
- The significance of the work carried on by the international organizations listed above is based on the fact that regardless of specific issue, experts from national

- governments, environmental organizations and the maritime industry, all address a specific issue, share knowledge including the technical aspects of ship operations before a final decision is taken on how to proceed with a given issue. While all three stakeholder types may not be completely satisfied with a given decision which, in most cases, is ultimately taken by national governments, all respect the fact that the technical aspects and the diversity of marine operations which relate to the specific issue being addressed have been taken into account.
- It is troubling at best to note the draft “Notice of Public Comment Period Sustainability Accounting Standards for the Transportation Sector, April 18 – July 17, 2014” states that the standards have been developed based on extensive evidence-based research and “significant, balanced input from more than 230 participants” when after being advised several days ago of this initiative, we personally have checked with a number of international and national maritime trade associations, member companies, agencies within the US government and abroad, and none were aware of this initiative. While no one entity can pretend to know about every legislative, regulatory or standards setting initiative globally, it is next to impossible to believe that any of these maritime industry based entities were consulted at the developmental stages of this proposed standard. While we understand that one US based marine transportation company has been consulted after the draft standard was published in draft form, we would have hoped that maritime industry experts would be consulted at the formative stages when this standard was under discussion to provide the necessary input on the appropriate material sustainability topics and most importantly, the metrics assigned to each topic. Misassumptions and errors evident in the metrics discussion (which we will discuss in more specificity below) indicates to us that the drafters did not consult the marine transportation industry, and thus were not fully informed about its differences from more conventional transportation modes covered in the SASB transportation sector or the many ongoing discussions at the international level concerning the development of environmental monitoring, measurement and assessment for the maritime industry.
  - The concerns expressed above are further magnified by the expectation that any final SASB standard including this one, while voluntary, will likely result in efforts to require compliance with the SASB standards and may even involve efforts to seek the SEC to require compliance with these standards. While we have no specific objection to this evolution in general, our concerns here relate to the questionable topics and metrics chosen for application to marine transportation which we must conclude were developed without any real input to the standards development process by experts in the field of marine transportation. The absence of the involvement of these maritime experts make finalization of a proper (useful, relevant, comparable, auditable) sustainability measurement standard impossible and creates an even more difficult dilemma for entities which could be subject to this standard in determining materiality and risk for issues that even yet remain the subject of discussions at international levels on how they are best defined, measured and assessed.
  - Development of metrics for all aspects of shipping, especially environmental performance, is a focus of a number of initiatives worldwide as indicated above. These initiatives are populated by individuals knowledgeable about the

environment and marine operations, and are trying to address the challenges associated with measurements across a large number of vessels and vessel types. One size fits all doesn't work and any "system" that doesn't recognize this fact, is selling a measurement system that will be inconsistent, non-standardized and non-comparable among reporting entities, just the opposite from what we would expect for a system which would be used by a broad base of user types and in widely varied trading scenarios.

- We understand that a number of shipping companies are involved in the Clean Cargo Working Group. We have reviewed their environmental performance survey (2011) and note that it is a qualitative system that identifies certain key criteria. We would suggest that review of this document would be a good starting point for the development of a quantitative measurement system such as that proposed here and ensure that the necessary marine transportation expertise is included to ensure appropriateness of proposed topics and metrics. Engaging the necessary maritime expertise would also ensure that others involved in only the standards setting side of the equation can be informed on the status of similar initiatives worldwide and benefit from those discussions and developing knowledge base.

#### **Comment on Specific Topics/Metrics**

- Environmental Footprint/TR0301-02: This metric would require scoring using the World Port Climate Initiative's Environmental Ship Index (ESI). There are hosts of people trying to develop an accurate and realistic environmental indexing program for shipping. The facts indicate that this is not an easy task particularly as regards establishing baselines across the various ship types and taking into account operating scenarios e.g. liner trades, time charters typically associated with bulk (dry/wet) carriers and other operating parameters out of the control of the ship owner and crew. We would suggest that before a decision is taken to use the ESI referenced above, a review of other initiatives occurring worldwide aimed at establishing a reality based environmental indexing system is the prudent way forward.
- Environmental Footprint/TR0301-03: This metric would require data be provided on total fuel consumed and a percentage breakdown between heavy fuel oil and renewables. There is absolutely no recognition here of the use of any other fuel types other than heavy fuel oil and renewables again leading to the conclusion that the drafters of this document were not familiar with current and future clean fuel requirements as promulgated by the IMO MARPOL Annex VI, including emissions control area clean fuel requirements that require use of fuel oil with no more than 1% sulfur at the initial stages and moving to a mandate for fuel oil with no more than 0.1% sulfur (Note the North American Emissions Control Area is now at 1% sulfur and will mandate use of 0.1% sulfur effective 1 January 2015). In addition, the global cap for sulfur in marine fuel will move to 0.5% in either 2020 or 2025 (depending on an IMO fuel availability study). Any environmental performance measurement system must take into account use of these cleaner fuels.

- Environmental Footprint/TR0301-04: This metric would require calculation of the EEDI for both new and existing vessels. While note .21 indicates acknowledgement of the IMO decision to adopt EEDI only for new ships, it would be applied by this standard to existing ships anyway, without any knowledge or appreciation of why IMO could not agree to an EEDI for existing ships at the present time. While an EEDI can be done for existing ships, there is no standardized way to calculate this value for existing ships and absent any globally agreed upon EEDI measurement standard for existing ships (as we now have for new ships), the reported results from covered entities would likely be based on different perspectives on how to accurately create an EEDI for existing ships. Recalling basic accounting principles, the goal of creating generally accepted accounting practices is standardization in measurement and absent any global standard for EEDI as applied to existing ships, this metric would provide anything but comparable results across multiple vessel EEDI calculations.
- Ecological Impacts/TR0301-05: This metric relates to compliance with the IMO Ballast Water Convention and details provided at pg. 7 of the draft suggest a lack of understanding of the real issues surrounding ballast water management compliance issues. First if this draft standard would eventually apply to US publically traded companies, it would seem to us that compliance with US ballast water laws and regulations is the appropriate baseline for measurement as opposed to the proposed metric which would use compliance with the IMO Convention which has not yet entered into force and may never be ratified by the US. Second, note .23 lists 6 bullets, all of which it appears would have to be met to be considered “in full compliance”. The legal requirements do require a plan, record book and a certificate. However, a system which has been approved by a Flag Administration (other than the US) is not necessarily compliant with US regulations nor is a system that has been approved per IMO Regulation D-2 (actually one in the same) unless it has either received an Alternative Management System approval or a US type approval from the US Coast Guard. Also, the USCG and EPA regulations do not require ballast water exchange plus treatment. The federal requirements require that either exchange or treatment is compliant with requirements until such time as the implementation schedule is in effect for a particular ship at which point, only treatment is compliant. In the interest of full disclosure, it may be noted that states that border the Great Lakes have included an exchange plus treatment provision in their state specific 401 certifications to the EPA’s vessel general permit which also applies to their coastlines, but this state specific requirement is not the national standard.
- Ecological Impacts/TR0301-07 and Accident and Safety Management/TR0301-14: These metrics require a description of policies and procedures to ensure compliance with MARPOL, SOLAS and the International Safety Management (ISM) Code. Aside from the lack of quantitative focus of these metrics, we would suggest that a reasonable interpretation of this metric would provide no benefit to the general public or investor for several reasons. First, compliance programs both for shoreside management and for crews onboard vessels take up entire bookshelves. Assuming this is not the desired output, a short summary of these compliance programs would provide no real value since it would not be specific enough to inform decisions of those using the information. The more relevant

question relating to compliance with these and any other requirements would be the status of vessel certifications and other documentation and easily accessible via flag state and port state records.

- Business Ethics/TR0301-08: This metric requires the reporting of Time Charter Equivalents (TCEs) from voyages to/from countries with the 20 lowest Transparency International's Corruption Perception (TICP) index rankings. First, we believe that it is less important where you do business than how you conduct your business in an ethical manner. Any metric that requires reporting of geographic location seems meaningless to us. While the shipping industry in general is not familiar with the TICP, it is important to recognize as summarized above, that a number of commercial relationships relating to the movement of cargo by sea, put the control of the vessel in the hands of the charterer with regard to ports of call and operating conditions during transits. With this in mind, negative implications which may rest with a shipowners reporting of vessel calls in the lowest TICP countries is really not a reflection on his management decisions but rather on the business needs of the entity which chartered his vessel. This is yet another example of how the business arrangements inherent in the marine transportation industry present unique challenges not otherwise occurring in more traditional transportation modes. With respect to this item, we would respectfully recommend it be deleted as a metric for this standard.
- Accident and Safety Management/TR0301-10: This metric requires reporting of total recordable injury rate and near miss frequency rates for both employees and contractors. The first relevant point to make here is that the vast majority of vessels and crews calling in US ports are foreign flagged and crewed and are not subject to OSHA reporting requirements e.g. not US flagged, although the company that owns them may be traded on US exchanges and thus subject to SEC reporting requirements. Although not recognized in the drafting of this document, most international incident reporting systems that are used by the maritime industry are based on the number of events per 1,000,000 hours. While most shipping companies attempt to capture near misses, their definitions and measurement methods may well vary as to what is or is not included. With no specific definition or recordkeeping program, the results here will be all over the board based upon how strict the reporting system is managed and thus neither consistency in measurement nor comparability between reporting entities can be expected.

### **Conclusions and Recommendations**

Based on the general points made above as well as the reality based disconnects between global marine operations and assumptions made within the draft standard, we would recommend that finalization of this marine transportation standard be delayed indefinitely until the challenges that have already been identified by a number of international groups and organizations and that are in the process of being solved through discussions involving all stakeholders are better appreciated and integrated into the SASB final marine transportation standard.

As so succinctly put in an article authored by Sara Kendall (The Environmental Forum, Volume 31, Number 4, July/August 2014) entitled "Who Defines Sustainable?", "there



should not be a rush to require compliance until the standards have been tested in the marketplace to ensure the metrics are collectable, verifiable, relevant for every sector, and informative to investors and customers". Neither should there be a rush to promulgation of a voluntary standard that has not been adequately vetted through the industry sector to which it applies. Costly and unnecessary collection of data benefits no one so we collectively have a responsibility to be sure that whatever data we are collecting meets the needs for accuracy, reliability and comparability required by the ultimate user and is cost-effective for those required to report this data.

CSA appreciates the opportunity to comment on the exposure draft standards for marine transportation and would be pleased to answer any questions relative to these issues or stimulated by our comments.

Sincerely,

A handwritten signature in black ink, reading "Kathy J. Metcalf". The signature is written in a cursive style with a large initial 'K'.

Kathy J. Metcalf  
Director, Maritime Affairs

As a group strongly committed to sustainable development, the Tire Industry Project (TIP)<sup>1</sup> is interested in efforts to improve sustainability within the private sector, for example SASB's initiative to develop sectorial reporting guidelines. However, the TIP has concerns about the applicability of these guidelines given there are relevant global guidelines already in place. While we have not had time to fully review the draft SASB guidelines for the Transportation Sector/Auto Parts SICs (April 2014 version), we have noted a few major areas of concern below.

## Global and US Concerns

- Confidentiality and Competitiveness Issues  
The TIP has strong concerns from a competition law perspective about the current draft SASB guidelines. As currently written, several sections request confidential information—for example, the Product Stewardship section asks for “Total addressable market and share of market for products aimed at improved fuel efficiency and/or reduced emissions,” which is likely to be proprietary information. If US listed companies were required to disclose potentially sensitive business information that non-US listed companies do not disclose, this would constitute a competitive disadvantage for the US listed companies.
- Recalls Topic  
Recalls and reporting requirements around recalls are covered by federal regulations managed by the National Highway Traffic Safety Administration (NHTSA). NHTSA's procedures are designed to encourage, not discourage, voluntary recalls. SASB guidelines could have the effect of discouraging voluntary recalls. Recalls need not be addressed by any potential SASB guidelines.
- SEC Conflict Minerals Rule  
The SASB sustainability reporting should be harmonized with the SEC Conflict Mineral Rule and should not duplicate or expand the scope of that requirement.
- US-based Standard  
Given that this is a proposed US-only based standard, it becomes problematic for companies that operate globally and are already collecting non-financial Sustainability information and reporting it using one or more of the existing global Sustainability reporting standards. It is also important to consider aligning with existing US reporting standards such as the obligatory US EPA reporting.
- Open, Transparent and Thorough Development Process  
To encourage having an open, transparent and thorough process, we think it is important to consider working with and/or consulting with a credible standard setting organization such as ISO, UL, NSF, ASTM, etc.

## Relationship with Other Reporting Initiatives

The TIP appreciates SASB's determination to develop sectorial guidelines that would be more adapted and pertinent to each industry, but would like SASB to consider aligning with other global initiatives, such as the Global Reporting Initiative (GRI) and the Carbon Disclosure Project (CDP), which are also considering developing sectorial guidelines. Consistency and alignment among accepted Sustainability reporting initiatives are key to avoid duplication and unnecessary additional workloads.

In conclusion, the TIP would like a 3 month time extension to review the proposed standard in more detail. Without such an extension, the TIP finds it difficult to provide meaningful detailed comments.

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<sup>1</sup> The Tire Industry Project (TIP) was formed in 2006 under the umbrella of the World Business Council for Sustainable Development (WBCSD). TIP works to anticipate, study and determine potential environmental and health issues that relate to the life cycle impacts of tires and could impact the tire industry globally. The results of TIP's work are communicated to the appropriate stakeholders. This project is chaired by the three largest tire manufacturers – Bridgestone (Japan), Goodyear (US) and Michelin (France) – and includes a total of eleven companies (Bridgestone, Continental, Cooper, Goodyear, Hankook, Kumho, Michelin, Pirelli, Sumitomo, Toyo and Yokohama) representing approximately 65% of the world's tire manufacturing capacity. More information on the project is available on our website: <http://www.wbcscd.org/work-program/sector-projects/tires.aspx>.

July 16, 2014

Sustainability Accounting Standards Board  
75 Broadway Suite 202  
San Francisco, CA 94111  
Via email: [tr\\_comments@sasb.org](mailto:tr_comments@sasb.org)

Dear Ms. Martin:

Ref: Exposure Draft for Public Comment – Marine Transportation

Thank you for this opportunity to provide comments on the draft sustainability accounting standards for the marine transportation sector. Matson is a United States flag ocean carrier and currently operates nine container and roll-on/roll-off vessels carrying cargo between Long Beach, Oakland and Seattle and Hawaii with five vessels that continue on to Guam and China. We also operate a bulk carrier which is used primarily to transport sugar between Hawaii and Crockett, California, and a small fleet of unmanned, inter-island barges in Hawaii.

We would like to thank the staff for their efforts to reach out to the marine transportation sector. The material sustainability topics identified in the draft standards are ones that are of primary importance and concern to Matson. We are also very much in agreement with the following statements presented in the industry description:

“The vast majority of global shipping freight is carried by companies based outside of the U.S. Due to the international scope of the industry, companies have to navigate many legal and regulatory frameworks.”

The draft sustainability accounting standards include several new and emerging environmental initiatives which are part this complicated legal framework. We encourage sufficient time for finalizing and implementing the standards until the actual regulatory frameworks are in place. In light of the fact that most marine transportation companies are based outside of the U.S., SASB should also consider the potential economic disadvantage to U. S. companies which may result from implementation of the proposed standards. The draft standards currently contain 19 different data elements to address the 4 material sustainability topics which would require an inordinate amount of data collection and reporting, much of which is not currently being compiled.

Following are our comments on specific sections. We have focused on narrowing the list of data elements and providing meaningful metrics based on good science and common practices in the industry.

Environmental Footprint of Fuel Use – We agree with statements made in the description that fuel consumption has a fundamental impact on the profitability of a marine transportation company. The environmental impacts from vessel fuel consumption may also be significant. Air quality in port areas may be affected by priority pollutants, and emissions of greenhouse gases impact global climate change. The draft standards currently contain 4 topic-related (TR0301-01 through 04) and 5 activity-related (TR0301-A through E) metrics all geared towards measuring this impact. We strongly encourage SASB to adopt a single metric for greenhouse emissions based on Clean Cargo Working Group (CCWG) methodology. Reporting metric for NO<sub>x</sub> should be gNO<sub>x</sub>/kw-hr as recorded on the International Air Pollution Prevention (IAPP) certificate, and metric for SO<sub>x</sub> should be annual average sulfur content of fuel burned. Following are specific concerns regarding each topic-related metric:

TR0301-01 There are currently no methodologies for calculating emissions of greenhouse gas emissions other than carbon dioxide from ocean-going vessels. The contribution of greenhouse gas emissions from activities such as use of terminal equipment is small compared to burning of fuel in ocean-going vessels. Also there are currently no standardized methodologies for calculating greenhouse gas emissions from these smaller sources.

TR0301-02 We are very much opposed to the use of the Environmental Shipping Index (ESI) score. Matson currently does not operate any ships in ports using the ESI so we do not have firsthand knowledge of its use, however we have heard from other shipping companies that it is very cumbersome and does not accurately reflect environmental performance. This is due to many factors including entering of Bunker Delivery Notes for each vessel is time-consuming, NO<sub>x</sub> score is based on engine power rating not the IAPP, and too much weighting is given for ships that have been retrofitted for shore power whether or not it is used.

TR0301-03 We do not see a benefit in reporting total fuel consumed since this is obviously primarily influenced by the size of a company's fleet. It is assumed that by asking for the 5 activity level metrics (TR0301-A through E), it may be possible to calculate an overall carbon efficiency, but this will not lead to standard methodology and could result in gross misrepresentations. Although we do not agree with requiring this metric, if it is mandated it should be in SSI units.

TR0301-04 There are many documents available from the International Maritime Organization Marine Environment Protection Committee (MEPC) that indicate that the Energy Efficiency Design Index is to be used only for newbuildings and is not suitable for evaluating existing vessels.

Ecological Impacts – There are several incorrect and misleading statements in the description. Many ocean-going vessels do not generate significant water and waste pollution during the normal course of operations. Specifically, modern container ships operate with small crews of around 20 so there is very little waste from accommodation spaces. Most wastewaters from accommodation spaces and engine room are minimized and treated, and the statement that untreated sewage is routinely discharged is incorrect. Open water ballast exchange is used to minimize introductions of invasive species in port areas; it is not the cause of introductions as stated.

TR0301-05 This proposed metric is flawed because it requires a company to disclose that it is not in compliance with the as yet unratified International Ballast Water Convention. In addition, the U. S. Coast Guard has not approved any ballast water treatment systems. Finally, open water exchange is an interim ballast water management method and will eventually be superseded by use of treatment systems. Open water exchange and onboard treatment will not be used concurrently.

TR0301-06 We do not foresee any issues with reporting number of spills which result in significant harm to the environment.

TR0301-07 Marpol Annexes I-VI are lengthy, complex standards governing all aspects of environmental impacts from ocean-going vessels. Therefore, the management systems governing compliance with these standards are also comprehensive. The description of such management systems required by this proposed metric would be very lengthy and will not provide a measurable indication of a company's environmental impact.

Business Ethics – Like all U.S. companies, Matson strives for 100% compliance with the Foreign Corrupt Practices Act. However the metrics proposed for this category appear to be very cumbersome. We encourage alignment with BSR's Marine Anti-Corruption Network.

TR0301-08 Matson owns and operates its fleet of vessels so we are unfamiliar with the time charter equivalent (TCE) metric. Also basing the metric on whether a vessel originates or departs from a low ranked country for corruption, does not give an accurate representation of how long, or how often, these countries are visited.

TR0301-09&10 These 2 proposed metrics require disclosures of illegal activities which are already required by SEC filings.

Accident & Safety Management – We agree with the description of the importance of accident and safety to the sustainability of a marine transportation company.

TR0301-10 This proposed metric should be restricted to serious marine incidents. The definition of marine casualty or accident in 46CFR 4.03-1 is subject to interpretation, and the U. S. Coast Guard has recently taken a very conservative approach to 2692 reporting. Specifically, they have been requiring reporting for auto slowdowns which are not unusual events and usually pose little threat to the vessel's propulsion or steering

capability. Disclosure of all 2692 reporting would be cumbersome and would give an exaggerated impression of the number of accidents.

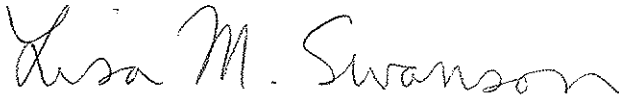
TR0301-11 This proposed metric relies on standards from the Occupational Safety and Health Administration which are not applicable to the marine transportation sector. The commonly used metric is lost time incident (LTI) rate which is number of LTIs per 1 million working hours where LTI is defined as an incident which results in absence from work beyond the date or shift when it occurred.

TR0301-12 and 13 We do not believe that these 2 proposed metrics are meaningful indications of accident and safety management. Conditions of class and port state control deficiencies can range from significant structural integrity violations to very minor paperwork discrepancies.

TR0301-14 Our comments on this proposed metric are the same as for TR0301-07, and the policies and procedures specified for Marpol compliance would be part of the same Safety Management System (SMS). All ocean going vessels must maintain a Safety Management Certificate indicating that there is an effective SMS in place.

Thank you for an opportunity to express our concerns regarding the draft standards. We encourage you to delay adoption of final standards until more reasonable and useful metrics can be developed with input by maritime professionals. Please continue to keep me informed regarding the standards adoption process. I can be reached at (562) 495-8631.

Sincerely,

A handwritten signature in black ink that reads "Lisa M. Swanson". The signature is written in a cursive, flowing style.

Lisa M. Swanson  
Director, Environmental Affairs

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
United Kingdom

4<sup>th</sup> July 2014

Dear Sir / Madam,

I welcome the opportunity to comment on the SASB Transportation draft standard. My comments focus on the airlines and air freight sub-standards and are made in a personal capacity.

The fundamental risk, as I see it, is not identified specifically; namely the aviation industry is forecast to grow significantly in the decades ahead and is unable to reduce its GHG emissions by little other than various one-off single digit improvements. Conversely, every economic sector will have to (and probably can) reduce its GHG emissions in the context of international climate targets / agreements / carbon budgets, whereas aviation cannot given its operating context. This presents significant risks to society, the environment and by extension, the economy.

A number of comments are listed in the appendix (enclosed) for your consideration, in the format requested by SASB, relating equally to relevant issues listed in TR201 / TR202.

Kind regards,



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Dr Jarlath Molloy.

## Appendix: Comments on the SASB Transportation draft standard

<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Industry description</b>
<b>Metric code:</b>	<b>TR0201</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	There is no mention of the corporate / executive jet sector which, although niche, is a growing sector and responsible for relatively high per passenger greenhouse gas (GHG) emissions.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Industry description</b>
<b>Metric code:</b>	<b>TR0201 / TR202</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	There is no discussion on the interconnected nature of the sector, i.e. between airlines, air navigation service providers (ANSPs), airports, military users of airspace, ground handling and others. The sector is unlike any other and this complicates environmental mitigation (amongst many other regulatory issues).
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201 / TR202</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	There should be some acknowledgement of additional radiative forcing from non-CO <sub>2</sub> aviation emissions. Non-CO <sub>2</sub> emissions are a significant climate risk and are outside any prospective aviation mitigation policies or agreements. While aviation non-CO <sub>2</sub> emissions are subject to on going scientific study, its impact is not uncertain.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	There is no mention of local air quality issues – although fuel use is an issue in the terminal manoeuvring area / airport.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201 / TR202</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	There is no reference to airspace issues affecting airlines and fuel efficiency. Airspace inefficiency is generally the biggest challenge to mitigating aviation's GHG emissions, due to congestion, closed military airspace, route inefficiency, terminal airspace management, airline operations and others.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201 / TR202</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	I recommend avoiding using percentages to describe the aviation industry's contribution to total GHG emissions, or at least doing so in the absence of absolute figures. The sector regularly cites its responsibility as 2% of global CO <sub>2</sub> emissions. This figure originates from a 1992 NASA "Tradeoff" study and has been regularly cited since then without reference or context. The use of the percentage measure disguises the massive growth both in total global CO <sub>2</sub> / GHG emissions and growth in the aviation sector since 1992.



<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	"The managing of environmental impacts from fuel usage includes both fuel efficiency and the use of alternative fuels". There should at least be some reference to fleet and engine choice as a means to manage environmental impacts from fuel usage.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use - description</b>
<b>Metric code:</b>	<b>TR0201 / TR202</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	"Over 99% of airlines emissions are in the form of carbon dioxide". This statement should be referenced. The statement is also potentially misleading on its own, as it could be interpreted that action is only required on CO <sub>2</sub> emissions, whereas the reality is more complicated; i.e. non-CO <sub>2</sub> emissions at altitude, noise and local air quality pollution.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-A / TR202-A</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines already report a range of performance indicators to ICAO and/or IATA.
<b>Industry standard:</b>	<b>Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-B</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines report a range of performance indicators to ICAO and/or IATA using the metric system (i.e. kilometres not miles).
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-A</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines report a range of performance indicators to ICAO and/or IATA using the metric system (i.e. kilometres not miles).
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-C</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines report a range of performance indicators to ICAO and/or IATA using the metric system (i.e. kilometres not miles).
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-D</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines report a range of performance indicators to ICAO and/or IATA using the metric system (i.e. kilometres not miles).
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Activity metrics</b>
<b>Metric code:</b>	<b>TR0201-F</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Airlines already report a range of performance indicators to ICAO and/or IATA.

<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use</b>
<b>Metric code:</b>	<b>TR0201-02</b>
<b>Line of disclosure:</b>	<b>.12</b>
<b>Comment:</b>	Airline business models are tied to their fleet / engine choices and typically are the main factor affecting their environmental footprint. I recommend the addition of "aircraft fleet and engine management", in addition to the existing text on " <i>upgrading of the fleet to new aircraft</i> ".
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use</b>
<b>Metric code:</b>	<b>TR0201-02</b>
<b>Line of disclosure:</b>	<b>.08 – .12</b>
<b>Comment:</b>	This should equally apply to Air freight & logistics TR202.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use</b>
<b>Metric code:</b>	<b>TR0201-03 / TR202-02</b>
<b>Line of disclosure:</b>	<b>.13 / .08</b>
<b>Comment:</b>	The percentage renewable fuel used should be reported only for actual commercial flights (i.e. not research / test flights) undertaken.
<b>Industry standard:</b>	<b>Airlines / Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use</b>
<b>Metric code:</b>	<b>TR0201-03 / TR202-02</b>
<b>Line of disclosure:</b>	<b>.17 / .12</b>
<b>Comment:</b>	I am unfamiliar with the specifics of Green-e Energy certified or Renewable Portfolio Standard. Organisations should be required to disclosure details of the source, type and details of the biomass crop used.
<b>Industry standard:</b>	<b>Air freight &amp; logistics</b>
<b>Disclosure topic:</b>	<b>Environmental footprint of fuel use</b>
<b>Metric code:</b>	<b>TR202-03</b>
<b>Line of disclosure:</b>	<b>.14 – .18</b>
<b>Comment:</b>	This should equally apply to Airlines TR201.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety - description</b>
<b>Metric code:</b>	<b>TR0201</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Requirements to report on passenger safety issues already exist with reference to NTSB, FAA, EASA, ICAO and other requirements. I am concerned at the prospect of duplication of reporting and the scope for confusion with new metrics.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0201-04</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Passenger safety issues are already comprehensively addressed by US and International regulations. In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0201-04</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	This should equally apply to Air freight & logistics TR202.

<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0202-05</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Passenger safety issues are already comprehensively addressed by US and International regulations. In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0202-05</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	This should equally apply to Air freight & logistics TR202.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0202-05</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	It appears that the metric code contains a typographical error. I believe it should read TR201-05.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0201-06</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Passenger safety issues are already comprehensively addressed by US and International regulations. In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger safety</b>
<b>Metric code:</b>	<b>TR0201-07</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	Passenger safety issues are already comprehensively addressed by US and International regulations. In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger rights &amp; regulatory compliance</b>
<b>Metric code:</b>	<b>TR0201</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	An ambitious and interesting list of metrics are described for use by the airline sector. However, I believe many of these may already reported on in other fora. I am concerned at the prospect of duplication of reporting and the scope for confusion with new metrics.
<b>Industry standard:</b>	<b>Airlines</b>
<b>Disclosure topic:</b>	<b>Passenger rights &amp; regulatory compliance</b>
<b>Metric code:</b>	<b>TR0201-09</b>
<b>Line of disclosure:</b>	<b>N/A</b>
<b>Comment:</b>	In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Airlines  
**Disclosure topic:** Passenger rights & regulatory compliance  
**Metric code:** TR0201-10  
**Line of disclosure:** N/A  
**Comment:** In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Airlines  
**Disclosure topic:** Talent & diversity  
**Metric code:** TR0201-11  
**Line of disclosure:** N/A  
**Comment:** In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Airlines  
**Disclosure topic:** Talent & diversity  
**Metric code:** TR0201-12  
**Line of disclosure:** N/A  
**Comment:** In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Airlines  
**Disclosure topic:** Talent & diversity  
**Metric code:** TR0201-13  
**Line of disclosure:** N/A  
**Comment:** In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Airlines  
**Disclosure topic:** Competitive behaviour  
**Metric code:** TR0201-14  
**Line of disclosure:** N/A  
**Comment:** In the context of the three constituent elements of sustainability; i.e. economic, environment and social pillars, there is a tenuous link to the topic. However the justification for the inclusion of this topic and its metrics as a sustainability-related material issue for a reasonable investor is incomplete.

**Industry standard:** Air Freight & Logistics  
**Disclosure topic:** Industry description  
**Metric code:** TR0202  
**Line of disclosure:** N/A  
**Comment:** I recommend that the air freight element of TR0202 should be integrated into TR0201 (airlines). As well as enabling users of SASB reports being able to focus on a single mode, it also simplifies reporting from an operational perspective. Logistics organisations with air and surface transport operations will have very different regulatory requirements for each mode. By combining the air freight part of TR0202 in TR0201, the reporting burden will be minimised for airlines who have their own cargo operations which handle air freight directly with customers and have agreements with freight companies to use spare capacity in the holds of passenger aircraft. They would otherwise have to report for both TR201 (airlines) and TR202 (air freight & logistics) and devise a methodology for splitting passenger and freight results. Logistics organisations would still have to report to both TR201 (airlines) and TR202 (logistics), however they are likely to have individual operational units responsible for each respective mode and furthermore their aircraft do not carry passengers, thereby simplifying the reporting process.