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SUSTAINABILITY ACCOUNTING STANDARD
TRANSPORTATION SECTOR

AUTO PARTS

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #TR0102

Prepared by the
Sustainability Accounting Standards Board®

September 2014
Provisional Standard

AUTO PARTS

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

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Table of Contents

Purpose & Structure	1
Industry Description	1
Guidance for Disclosure of Material Sustainability Topics in SEC Filings	2
Guidance on Accounting of Material Sustainability Topics	4
Users of the SASB Standards	4
Scope of Disclosure	5
Reporting Format	5
Activity Metrics and Normalization	5
Units of Measure.....	6
Uncertainty.....	6
Estimates.....	6
Timing	6
Limitations	6
Forward-looking Statements	7
Assurance	7
Table 1. Sustainability Disclosure Topics & Accounting Metrics	8
Energy Management	9
Description	9
Accounting Metrics	9
Materials Efficiency & Waste Management	11
Description	11
Accounting Metrics	11
Product Safety	13
Description	13
Accounting Metrics	13
Product Lifecycle Management	14
Description	14
Accounting Metrics	14
Competitive Behavior	17
Description	17
Accounting Metrics	17
Materials Sourcing	18
Description	18
Accounting Metrics	18

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for Auto Parts.

SASB Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB's disclosure guidance identifies sustainability topics at an industry level, which may be material— depending on a company's specific operating context— to a company within that industry.

Each company is ultimately responsible for determining which information is material and is therefore required to be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB's accounting standards provide companies with standardized accounting metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable, and auditable.

Industry Description

The Auto Parts industry mostly supplies parts to companies in the Automobiles industry, also known as original equipment manufacturers (OEM). The Auto Parts industry includes companies that manufacture and assemble a wide variety of motor vehicle parts and accessories, including engine exhaust, alternative drivetrain, and hybrid systems as well as catalytic converters, aluminum wheels (rims), tires, rearview mirrors, and onboard electrical and electronic equipment. The larger automotive industry includes several tiers of suppliers that provide parts and raw materials that are used to assemble motor vehicles. Tier 1 suppliers are those that supply parts directly to OEMs and are the only suppliers included in SASB's Auto Parts industry. Tier 2 suppliers are those that provide inputs for Tier 1 suppliers; Tier 3 usually provides inputs to Tier 2; and so on. A number of Tier 1 suppliers, such as engine and stamping facilities, are owned and operated by OEMs, and are also known as captive suppliers.

Guidance for Disclosure of Material Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Disclosure Topics

For the Auto Parts industry, SASB has identified the following sustainability disclosure topics:

- Energy Management
- Materials Efficiency & Waste Management
- Product Safety
- Product Lifecycle Management
- Competitive Behavior
- Materials Sourcing

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.”^{1,2}

SASB has attempted to identify those sustainability topics that it believes may be material for all companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what is material to it.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K “any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.”²

Furthermore, Instructions to Item 303 state that the MD&A “shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition.”²

In determining whether a trend or uncertainty should be disclosed, the SEC has stated that management should use a two-part assessment based on probability and magnitude:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- Second, if a company’s management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant’s financial condition or results of operation is not reasonably likely to occur.

¹ TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

² C.F.R. 229.303(item 303)(a)(3)(ii).

3 . Sustainability Accounting Standard Disclosures in Form 10-K

a . Management’s Discussion and Analysis

Companies should consider making disclosure on sustainability topics as a complete set in the MD&A, in a sub-section titled **“Sustainability Accounting Standards Disclosures.”**³

b . Other Relevant Sections of Form 10-K

In addition to the MD&A section, companies should consider disclosing sustainability information in other sections of Form 10-K, as relevant, including:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.
- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c . Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>.

³ [SEC \[Release Nos. 33-8056; 34-45321; FR-61\] Commission Statement about Management’s Discussion and Analysis of Financial Condition and Results of Operations](#): “We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing.”

Guidance on Accounting of Material Sustainability Topics

For sustainability disclosure topics in the Auto Parts industry, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when disclosing its performance with respect to each of the sustainability topics it has identified as material.

As appropriate—and consistent with Rule 12b-20⁴—for each sustainability topic, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following, related to the topic:

- The registrant's **strategic approach** to managing performance on material sustainability issues;
- The registrant's competitive positioning;
- The **degree of control** the registrant has;
- Any measures the registrant has undertaken or plans to undertake to improve performance; and
- Data for the registrant's **last three completed fiscal years** (when available).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the [Sustainable Industry Classification System \(SICSTM\)](#). If a registrant generates significant revenue from multiple industries, SASB recommends that it consider the materiality of the sustainability issues that SASB has identified for those industries and disclose the associated SASB accounting metrics.

Users of the SASB Standards

The SASB Standards are intended for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),⁵ for use in SEC filings, including, without limitation, annual reports on Form 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Nevertheless, disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

⁴ SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

⁵ Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than \$10 million in assets.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities in which the registrant has a controlling interest and therefore are consolidated for financial reporting purposes (controlling interest is generally defined as ownership of 50% or more of voting shares);⁶
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand its performance with respect to sustainability issues (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed “activity metrics”—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for users of SASB accounting metrics (e.g., investors) in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.

⁶ See US GAAP consolidation rules (Section 810).
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Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of parts produced	Quantitative	Number	TR0102-A
Weight of parts produced	Quantitative	Metric tons (t)	TR0102-B
Square footage of manufacturing plants	Quantitative	Square meters (m ²)	TR0102-C

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the imperfectness of third-party reporting systems or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may be necessary for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

Assurance

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

SASB encourages registrants to use independent assurance (attestation); for example, an Examination Engagement to AT Section 101.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy Management	Total energy consumed, percentage grid electricity, percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	TR0102-01
Materials Efficiency & Waste Management	Amount of total waste from manufacturing, percentage hazardous, percentage recycled	Quantitative	Metric tons (t), Percentage (%)	TR0102-02
Product Safety	Number of recalls and total units recalled ⁷	Quantitative	Number	TR0102-03
Product Lifecycle Management	Total addressable market and share of market for products aimed at improved fuel efficiency and/or reduced emissions	Quantitative	U.S. Dollars (\$), Percentage (%)	TR0102-04
	Percentage of products sold that are recyclable or reusable	Quantitative	Percentage (%) of units sold	TR0102-05
	Weight of products and materials recycled or remanufactured	Quantitative	Metric tons (t)	TR0102-06
Competitive Behavior	Amount of legal and regulatory fines and settlements associated with anti-competitive practices ⁸	Quantitative	U.S. Dollars (\$)	TR0102-07
Materials Sourcing	Percentage of products, by revenue, that contain critical materials	Quantitative	Percentage (%) by revenue (\$)	TR0102-08
	Percentage of tungsten, tin, tantalum, and gold smelters and refiners within the supply chain that are verified conflict-free	Quantitative	Percentage (%)	TR0102-09
	Discussion of the management of risks associated with the use of critical materials and conflict minerals	Discussion and Analysis	n/a	TR0102-10

⁷ Note to **TR0102-03** - Disclosure shall include a discussion of notable recalls, such as those that affected a significant number of vehicles, multiple vehicle models, or those related to a serious injury or fatality.

⁸ Note to **TR0102-07** - Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Energy Management

Description

Most of the energy consumption in the vehicle manufacturing process happens in the supply chain of auto manufacturers. Auto parts manufacturers' use of electricity and fossil fuels in their production processes results in direct and indirect emissions of greenhouse gases (GHG). Purchased electricity represents a major share of the energy used in the Auto Parts industry. Sustainability factors, such as GHG emissions pricing and incentives for energy efficiency and renewable energy, are leading to an increase in the cost of conventional energy sources while making alternative sources cost-competitive. Therefore, it is becoming increasingly material for companies in energy-intensive industries to manage their overall energy efficiency, their reliance on different types of energy and the associated risks, and their access to alternative energy sources.

Accounting Metrics

TR0102-01. Total energy consumed, percentage grid electricity, percentage renewable

- .01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.
- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
 - The scope includes only energy consumed by entities owned or controlled by the organization.
 - The scope includes energy from all sources including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- .02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), and which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).
- .03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.
- .04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.
- The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.
 - For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
 - For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.⁹

.05 Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

- For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources are limited to the following:
 - Energy from hydro sources that are certified by the Low Impact Hydropower Institute.
 - Energy from biomass sources biomass sources are limited to those that are considered “eligible renewables” according to the Green-e Energy National Standard Version 2.4 or eligible for a state Renewable Portfolio Standard.

.06 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

⁹ SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

Materials Efficiency & Waste Management

Description

The auto parts manufacturing process involves the use of significant amounts of materials (including steel, iron, aluminum, and plastics, among others). Types of waste generated by the industry include machine lubricants and coolants, aqueous and solvent cleaning systems, paint, and scrap metals and plastics. A significant portion of auto parts manufacturers' revenue is spent on the cost of materials. Due to constrained resources, material prices are likely to increase in the future. Therefore, companies that are able to manage their inputs through reducing and recycling manufacturing waste are likely to be better protected from price volatility. Moreover, auto parts manufacturers can achieve substantial savings and improve operational efficiency by increasing the amount of waste that is recycled. Auto parts manufacturers that fail to prevent a negative environmental impact through their waste management practices, however, are likely to face regulatory oversight. Violation of environmental regulations is likely to generate extraordinary expenses as well as capital expenditures for pollution-control facilities and occupational safety and health projects.

Accounting Metrics

TR0102-02. Amount of total waste from manufacturing, percentage hazardous, percentage recycled

.07 The amount of total waste from manufacturing shall be calculated in metric tons, where waste is defined as anything for which the registrant has no further use and which is discarded or released to the environment.

.08 The percentage hazardous shall be calculated as the weight of waste that meets the definition of hazardous waste under national legislation at the point of generation divided by the total weight of waste material.

- In the absence of national legislation, the registrant shall categorize waste as hazardous if it meets the definition under Subtitle C of the U.S. Environmental Protection Agency's (EPA) Resource Conservation and Recovery Act (RCRA) and displays one or more of the following characteristics: ignitability, corrosivity, reactivity, or toxicity.

.09 The percentage recycled shall be calculated as the weight of waste material that was reused, plus the weight recycled or remanufactured (through treatment or processing) by the registrant, plus the amount sent externally for further recycling, divided by the total weight of waste material, where:

- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.
- Recycled and remanufactured materials are defined as waste materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product or a component for incorporation into a product.
- The scope of recycled and remanufactured products includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).
- Portions of products and materials that are disposed of in landfills are not considered recycled; only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

- Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.
- Materials incinerated, including for energy recovery, are not considered reused or recycled. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

Product Safety

Description

Driving is a risky activity, as distracted driving, speeding, drunk driving, and dangerous weather conditions, among other factors, can lead to accidents, exposing drivers, passengers, and bystanders to possible injuries and deaths. Accidents can also be caused by defective parts in vehicles, and failure to detect these defects before the vehicles are sold can have significant financial repercussions for automobile and auto parts manufacturers. Ensuring vehicle safety and responding in a timely manner when defects are identified can protect companies from regulatory action or customer lawsuits, which can affect company profitability through one-time costs and contingent liabilities. Through effective management of the issue, companies can enhance reputation and brand value and drive higher sales over the long term.

Accounting Metrics

TR0102-03. Number of recalls and total units recalled

- .10 The registrant shall disclose the total number of units recalled, the scope of which includes voluntary recalls initiated by the registrant and involuntary recalls mandated by the National Highway Traffic Safety Administration (NHTSA).
- .11 Involuntary recalls are those required by the NHTSA, which are issued when a motor vehicle or an item of motor vehicle equipment does not comply with Federal Motor Vehicle Safety Standards, or when there is a safety-related defect in the vehicle or equipment.
 - A database of NHTSA-initiated recalls is available [here](#).
- .12 The registrant may choose, in addition to total units recalled, to disclose the percentage of recalls that were (1) voluntarily and (2) involuntarily issued.

Note to TR0102-03

- .13 The registrant shall discuss notable recalls such as those that affected a significant number of vehicles, vehicle models, or those related to serious injury or fatality.
- .14 A recall should be considered notable if it mentioned in the NHTSA's [monthly recall reports](#).
- .15 For such recalls the registrant should provide:
 - Description and cause of the recall issue
 - The total number of units (or vehicles) recalled
 - The cost to remedy the issue (in U.S. dollars)
 - Whether the recall was voluntary or involuntary (mandated by NHTSA)
 - Corrective actions
 - Any other significant outcomes (e.g. legal proceedings, passenger fatalities)

Product Lifecycle Management

Description

The topic of product lifecycle management, for the purposes of this standard, focuses on innovations in the Auto Parts industry that drive fuel efficiency and improve end-of-life management of vehicles. Automotive components and parts play a vital role in improving fuel efficiency and reducing tailpipe emissions of automobiles through energy efficiency gains and contributions to weight reductions, among other factors. The Auto Parts industry also plays a part in reducing environmental externalities associated with product end-of-life management and in addressing resource constraints through recovery and recycling of disposed parts. Companies that are able to improve vehicle fuel efficiency and reduce use-phase emissions through product innovation will be able to satisfy growing demand from OEMs that are increasingly pressured by stricter environmental regulations and customer preferences.

Accounting Metrics

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

- .16 The registrant shall provide an estimation of the total addressable market for automotive parts that are aimed at improved fuel efficiency of vehicles and/or reduced vehicle emissions.
- Total addressable market is defined as the potential revenue earned (in billions of U.S. dollars) if the registrant captured 100 percent of the market share of the product category (e.g., the global market for smart-grid specific processors).
- .17 If there is a significant difference between the total available market and the market that the registrant can serve through its existing or planned capabilities, sales channels, or products, then the registrant should disclose this information.
- .18 The registrant shall disclose the share of the total addressable market for automotive parts aimed at improved fuel efficiency and/or reduced emissions that it currently captures with its products.
- Market share shall be calculated as revenues from these products divided by the size of the total addressable market.
 - The scope of products shall include those specifically designed to improve fuel efficiency and/or reduce vehicle emissions.
 - The scope of disclosure excludes products that offer improved fuel efficiency and/or reduced emissions in an ancillary or indirect way (e.g., a conventional product that is slightly lighter than the previous generation of the product or a component that is reduced in size as a result of design changes).
- .19 The registrant may provide a projection of the growth of this market, where the projected addressable market is represented—based on a reasonable set of assumptions about changes in market conditions—as a percentage of year-on-year growth or as an estimate of the market size after a defined period (i.e., the market size in 10 years).
- The registrant may disclose its target three-year market share as a measurement of targeted growth, where the target is the percentage of the total addressable market that the registrant plans to address over a three-year time horizon.
- .20 Products aimed at improved fuel efficiency and/or reduced emissions include, but are not limited to, those relating to: electrification of auxiliary systems such as oil and water pumps, waste heat recovery, improved aerodynamics,

hybrid and advanced fuel technologies, improvements to combustion efficiency, idle reduction, alternative cooling systems, electric power steering, hybrid-enabled braking technologies, and engine management systems/products.

TR0102-05. Percentage of products sold that are recyclable or reusable

- .21 The registrant shall calculate the percentage as the revenue from products, components, parts, and materials that are recyclable, reusable, or able to be remanufactured divided by total product revenue.
- .22 Consistent with the E.U. End of Life Vehicle Directive (Annex IIB to Directive 75/442/EEC) a material is recyclable if it is able to be reprocessed for the original purpose or other purposes, excluding energy recovery. Energy recovery means the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.
- Automotive parts, components, and materials are recyclable if they can be recycled at a reasonable cost with technology widely available in the markets in which they are sold.
- .23 The scope of disclosure excludes recoverable material which, consistent with the E.U. End of Life Vehicle Directive (Annex IIB to Directive 75/442/EEC), is defined as material that can be salvaged for further use, including use as a fuel or other means to generate energy.
- .24 Materials that are typically recyclable include ferrous and non-ferrous metals, metals, glass, and certain plastics.
- .25 Materials and components that are typically reusable or able to be remanufactured include engines, transmissions, catalysts, tires, batteries, CFCs, and tires.
- .26 Materials that are typically disposed of as waste or used for energy recovery include fluids, hazardous materials, automotive shredder residue (including glass, foam, fabric, etc.), and certain plastics.

TR0102-06. Weight of products and materials recycled or remanufactured

- .27 The registrant shall disclose the weight, in metric tons, of materials recovered, including through product take-back programs and recycling services.
- The scope of disclosure shall include products, materials, and parts that are at the end of their useful life and would have otherwise been disposed of as waste or used for energy recovery, but have instead been collected.
 - The scope of disclosure shall include both materials physically handled by the registrant and materials of which the registrant does not take physical possession, but for which it has contracted with a third party to collect the materials for the express purpose of reuse, recycling, or refurbishment.
 - The scope of disclosure excludes products and parts that are in-warranty and have been collected for repairs.
- .28 The weight of products recycled or remanufactured shall be calculated as the weight of incoming material that was reused plus the weight of material recycled or remanufactured (through treatment or processing) by the registrant plus the weight of material sent externally for further recycling.
- .29 Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.

- The scope of disclosure includes reuse by the registrant or by third parties through direct contract with the registrant.

.30 Recycled and remanufactured materials are defined as waste materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product or a component for incorporation into a product.

- The scope of recycled and remanufactured products includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).
- The scope of disclosure includes recycling conducted by the registrant or by third parties through direct contract with the registrant.
- Portions of products and materials that are disposed of in landfills are not considered recycled; only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

.31 The scope of disclosure excludes recoverable material which, consistent with the E.U. End of Life Vehicle Directive (Annex IIB to Directive 75/442/EEC), is defined as material that can be salvaged for further use, including use as a fuel or other means to generate energy.

Competitive Behavior

Description

Competitive business practices are an important governance issue for the Auto Parts industry. While industry concentration is low, there is a wide range of auto parts, and competition for business within each category of parts may not be as robust. Thus, leading producers of any specific auto part may have a lot of market power in that segment, creating antitrust concerns. Collusion and price-fixing by auto parts manufacturers ultimately leads to the costs being passed on to consumers through higher prices on vehicles. If involvement in such activities is discovered and proved, the imposed penalties may have acute impacts on a company's valuation.

Accounting Metrics

TR0102-07. Amount of legal and regulatory fines and settlements associated with anti-competitive practices

- .32 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with anti-competitive behavior, such as those related to enforcement of U.S. laws and regulations on price-fixing, antitrust behavior (e.g., exclusivity contracts), patent misuse, or network effects as well as bundling of services and products to limit competition, including violations of the Sherman Antitrust Act of 1890 and the Clayton Antitrust Act of 1914.
- .33 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **TR0102-07**

- .34 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., price-fixing, patent misuse, antitrust, etc.) of fines and settlements.
- .35 The registrant shall describe any corrective actions it has implemented as a result of each incident. These actions may include, but are not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Materials Sourcing

Description

Supply chain management for auto parts manufacturers involves sourcing and efficient use of critical and conflict-free metals. Rare earth metals, also known as rare earth elements (REEs), and other critical materials play a crucial role in clean energy technologies. Electric and hybrid vehicles use substantial amounts of critical materials. With global regulations aiming to reduce emissions and increase fuel efficiency of vehicles, the share of hybrids and ZEVs produced by the Automobiles industry is likely to continue to increase in the future. Therefore, demand for auto parts that may include critical materials is also likely to increase. Auto parts companies that are able to limit the use of critical and conflict materials, as well as securing their supply, would not only minimize environmental and social externalities related to extraction but also protect themselves from supply disruptions and volatile input prices.

Accounting Metrics

TR0102-08. Percentage of products, by revenue, that contain critical materials

.36 The registrant shall calculate the percentage as: the revenue, in U.S. dollars, from products that contain critical materials divided by total revenues from products.

.37 A critical material is defined as one that is both essential in use and subject to the risk of supply restriction.¹⁰

.38 At a minimum, the scope of critical materials includes the following minerals and metals:

- Antimony, cobalt, fluorspar, gallium, germanium, graphite, indium, magnesium, niobium, tantalum, and tungsten;
- Platinum group metals (platinum, palladium, iridium, rhodium, ruthenium, and osmium); and
- Rare earth elements, which include yttrium, scandium, lanthanum, and the lanthanides (cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, and lutetium).

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

.39 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 and/or refineries within its supply chain.

¹⁰ National Research Council. *Minerals, Critical Minerals, and the U.S. Economy*. Washington, DC: The National Academies Press, 2008.
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.40 A smelter or refiner is considered to be conflict-free if it can demonstrate compliance with:

- The Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiatives (GeSI) Conflict-Free Smelter Program (CFSP) assessment protocols
- The Responsible Jewellery Council's (RJC) Chain-of-Custody (CoC) Standard
- Any other due diligence certification, audit, or program that is endorsed by the Automotive Industry Action Group (AIAG), including, but not limited to, the iPoint Conflict Minerals Platform.

.41 A smelter or refinery is considered to be within the registrant's supply chain if it supplies or is approved to supply tungsten, tin, tantalum, or gold that is contained in any products the registrant manufactures or contracts to be manufactured.

- The scope includes smelters or refineries that supply material directly to the registrant as well as those that supply material to any of its suppliers of raw materials, components, or subassemblies.

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

.42 The registrant shall discuss its strategic approach to managing its risks associated with the usage of critical materials and conflict minerals in its products, including physical limits on their availability, access, and price, as well as associated reputational risks.

.43 The registrant should identify which materials and minerals present a risk to its operations, the type of risk represented, and the strategies the registrant uses to mitigate that risk.

.44 For critical materials, relevant strategies to discuss include diversification of suppliers, stockpiling of materials, expenditures in R&D for alternative and substitute materials, and investments in recycling technology for critical materials.

.45 For conflict minerals, relevant strategies to discuss include due diligence practices, supply chain auditing, supply chain engagement, and partnerships with industry groups or non-governmental development organizations (e.g., participation in the AIAG Conflict Minerals Work Group).

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