



SUSTAINABILITY ACCOUNTING STANDARD
RESOURCE TRANSFORMATION SECTOR

INDUSTRIAL MACHINERY & GOODS

Sustainability Accounting Standard

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Sustainable Industry Classification System™ (SICS™) #RT0203

Prepared by the
Sustainability Accounting Standards Board®

OCTOBER 2014
EXPOSURE DRAFT FOR PUBLIC COMMENT

INDUSTRIAL MACHINERY & GOODS

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 nonprofit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Industrial Machinery & Goods industry.

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 Industrial Machinery & Goods industry manufactures equipment for the construction, agriculture, energy, utility, mining, manufacturing, automotive, transportation, and other manufacturing sectors. Products include diesel engines, earth-moving equipment, trucks, tractors, ships, industrial pumps, locomotives, and turbines. The industry is composed of several major segments, including agricultural machinery, construction machinery, manufacturing machinery, energy equipment, and industrial process machinery. Machinery manufacturers purchase raw material inputs, including primarily steel, cast iron, plastics, rubber, paints, and glass. Manufacturers may also perform the machining and casting of parts before final assembly. Within the broader industry, companies compete largely on product quality, innovation, customer service, and brand strength.

Guidance for Disclosure of Material Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Disclosure Topics

For the Industrial Machinery & Goods industry, SASB has identified the following sustainability disclosure topics:

- Employee Health & Safety
- Materials Efficiency
- Fuel Economy & Use-phase Emissions
- 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).

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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 subsection 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 Industrial Machinery & Goods 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;

- 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 \(SICS™\)](#). 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 U.S. 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 units produced by product category ⁷	Quantitative	Number	RT0203-A
Number of employees, percentage in manufacturing role	Quantitative	Number, Percentage (%)	RT0203-B

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.

⁷ Note to RT0203-A – The registrant shall indicate the number of units produced for each of the following production categories, reflecting the major segments within the industry: agricultural machinery, construction machinery, manufacturing machinery, energy equipment, and industrial process machinery.

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.

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Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Employee Health & Safety	(1) Total recordable injury rate and (2) fatality rate for (a) full-time employees and (b) contract employees	Quantitative	Rate	RT0203-01
Fuel Economy & Use-phase Emissions	Sales-weighted fleet fuel efficiency for medium and heavy-duty vehicles ⁸	Quantitative	Gallons per 1,000 Ton-mile	RT0203-02
	Sales-weighted fleet fuel efficiency for stationary generators	Quantitative	Watt/gallon	RT0203-03
	Sales-weighted fleet emissions for: (1) marine diesel engines (2) locomotive diesel engines, and (3) other non-road diesel engines ⁹	Quantitative	Grams per kilowatt-hour	RT0203-04
Materials Efficiency	Percentage of products from remanufactured or reused parts	Quantitative	Percentage (%) by COGS	RT0203-05
	Amount of waste, percentage recycled	Quantitative	Tons (t), Percentage (%)	RT0203-06
Materials Sourcing	Percentage of materials costs for items containing critical materials	Quantitative	Percentage (%) by COGS	RT0203-07
	Percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified conflict-free	Quantitative	Percentage (%)	RT0203-08
	Discussion of the management of risks associated with the use of critical materials and conflict minerals	Discussion and Analysis	n/a	RT0203-09

⁸ Note to RT0203-02 – Disclosure shall include the registrant’s sales-weighted HD National Program Fuel Consumption Standards requirement for its medium- and heavy-duty vehicles.

⁹ Note to RT0203-04 – Disclosure shall include the registrant’s sales-weighted emissions requirements pursuant to 40 CFR §94 (marine engines), §1033 (locomotive engines), or §1039 (non-road diesel engines).

Employee Health & Safety

Description

Employees working in industrial machinery manufacturing facilities may be exposed to workplace health and safety risks. Poor ventilation and the high temperatures required for certain processes can create difficult working conditions. Ergonomic injuries can result from repeated movements. Mechanical hazards include risks to safety from moving parts and dangerous equipment. Workers are also at risk of inhaling toxic fumes or being in contact with hazardous substances that can have chronic health impacts as a result of repeated or prolonged exposure. Safety culture is critical to proactively guard against accidents or other incidents with negative environmental and social impacts. By maintaining a safe work environment and promoting a culture of safety, companies can minimize risks to their employees and, in turn, avoid direct and indirect costs associated with excessive medical expenses, litigation, work disruptions and insurance fees.

Accounting Metrics

RT0203-01. (1) Total recordable injury rate and (2) fatality rate for (a) full-time employees and (b) contract employees

- .01 For registrants whose workforce is entirely U.S.-based, the registrant shall disclose its total recordable injury rate (TRIR) and fatality rate, as calculated and reported in OSHA Form 300.
 - OSHA guidelines provide details on determination of whether an event is a recordable occupational incident, and definitions for exemptions for incidents that occurred in the work environment but are not occupational.
- .02 For registrants whose workforce includes non-U.S.-based employees, the registrant shall calculate its total recordable injury rate according to the U.S. Bureau of Labor Statistics guidance and/or using the U.S. Bureau of Labor Statistics calculator.
- .03 The registrant shall disclose its TRIR separately for its full-time employees and for contract employees, including independent contractors and those employed by third parties (e.g., temp agencies, labor brokers, etc.).
- .04 The scope includes all employees, domestic and foreign.
- .05 Rates shall be calculated as: $(\text{statistic count} / \text{total hours worked}) * 200,000$.

Fuel Economy & Use-phase Emissions

Description

Consumer and regulatory concern over climate change and other environmental impacts is increasing demand for machinery products that operate with minimal environmental and human health externalities. Many of the industry's products also release GHGs and other air emissions during use, and consume water and other materials. Emissions regulations are driving mandatory fuel efficiency improvements, while customers also seek greater efficiency to lower fuel costs. Companies in the industry are adapting to this trend by offering products with improved fuel efficiency, lower particulate matter and greenhouse gas emissions, and material efficiency. Companies that are innovative in increasing fuel economy and use-phase emissions will be better positioned to expand market share and manage changing regulations around fuel economy.

Accounting Metrics

RT0203-02. Sales-weighted fleet fuel efficiency for medium- and heavy-duty vehicles

.06 The registrant shall disclose its sales-weighted average fleet fuel efficiency for medium- and heavy-duty vehicles, where:

- Fleet fuel efficiency is the average fuel economy of its medium- and heavy-duty commercial vehicles sold during the fiscal year, measured in gallons per 1,000 ton-miles.
- The scope of disclosure includes vehicles in the fleet weighing 8,500 pounds or more, and which are covered under the Heavy Duty (HD) National Program, including combination tractors (commonly known as semi-trucks), heavy-duty pickup trucks and vans, and vocational vehicles.

Note to RT0203-02

.07 The registrant shall disclose its HD National Program Fuel Consumption Standards requirement for its medium- and heavy-duty vehicles, where:

- The fuel consumption standards requirement is a sales-weighted fuel efficiency threshold defined by the HD National Program in the U.S., as issued and regulated by the National Highway Traffic Safety Administration (NHTSA) and U.S. Environmental Protection Agency (EPA).

.08 The ratio of these sales-weighted values provides a normalized fuel efficiency premium, reflecting actual vehicle fuel efficiency performance relative to the required fuel efficiency threshold.

RT0203-03. Sales-weighted fuel efficiency for stationary generators

.09 The registrant shall disclose the sales-weighted average fuel efficiency of its stationary generators, where:

- Sales-weighted fuel efficiency is the average fuel efficiency of its stationary generators sold during the fiscal year, measured in watts per gallon.

.10 The sales weighted fuel efficiency is calculated as the harmonic mean of design fuel efficiency in watts per gallon, where:

- The harmonic mean is the reciprocal of the average of the reciprocal values. The harmonic mean captures the average amount of fuel needed by each generator to produce a given amount of power.

RT0203-04. Sales-weighted fleet emissions for: (1) marine diesel engines (2) locomotive diesel engines, and (3) other non-road diesel engines

.11 The registrant shall disclose the sales-weighted average fleet emissions for (1) marine diesel engines (2) locomotive diesel engines, and (3) other non-road diesel engines, where:

- Fleet emissions are the average emissions of nitrogen oxides (NO_x) and particulate matter (PM) for engines sold during the fiscal year, measured in grams per kilowatt-hour.
- The scope of disclosure includes non-road diesel engines, defined as any engine that is designed to operate with diesel fuel and that meets the definition of non-road engine in [40 CFR 1068.30](#), including locomotive and marine diesel engines, and which are covered under the air emissions standards in 40 CFR §94 (marine engines), §1033 (locomotive engines), or §1039 (non-road diesel engines), e.g. non-road diesel engines subject to the U.S. EPA Tier X emissions standards¹⁰.

Note to RT0203-04

.12 The registrant shall disclose the regulatory emissions standards for its (a) marine diesel engines (b) locomotive diesel engines, and (c) other non-road diesel engines, where:

- The emissions standards requirement pursuant to 40 CFR §94 (marine engines), §1033 (locomotive engines), or §1039 (non-road diesel engines), is a sales-weighted emissions threshold based on the mix of engine types sold during the fiscal year.

.13 The ratio of these sales-weighted values provides a normalized emissions premium, reflecting engine emissions performance relative to the required emissions threshold.

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¹⁰ Various engine types that are covered under 40 CFR §94 (marine engines), §1033 (locomotive engines), or §1039 (non-road diesel engines) are at different cycles of regulatory thresholds as follows: boat, ship, tanker, and bulk carrier marine diesel engines (Tier 3), line-haul, switch, and passenger locomotive diesel engines (Tier 4); and construction, agricultural, and utility non-road diesel engines (Tier 4).

Materials Efficiency

Description

Industrial machinery manufacturing generates process waste including: scrap steel, plastics, and rubber. A significant portion of industrial machinery 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, as well as reusing parts, are likely to be better protected from price volatility. Moreover, industrial machinery manufacturers can achieve substantial savings and improve operational efficiency by reducing waste and using materials more efficiently.

Accounting Metrics

RT0203-05. Percentage of products from remanufactured or reused parts

.14 The registrant shall disclose the percentage of its raw materials (by cost of goods sold) that are remanufactured or reused, where:

- Reused materials are defined as those recovered products, or components of products, that are used for the same purpose for which they were previously used.
- Remanufactured materials are defined as recovered products, or components of products, that have been reprocessed and made into a final product, or made into a component for incorporation into a product.
- Portions of products and materials that are disposed are not considered reused or remanufactured; only the portions of products or components that are directly incorporated into new products shall be included in the percentage from remanufactured or reused parts.
- The scope of disclosure is products sold during the fiscal year.

.15 The percentage from remanufactured or reused parts is calculated as the total cost of remanufactured or reused parts, divided by the total cost of goods sold for all products, including those products that do not contain any remanufactured or reused parts.

RT0203-06. Amount of waste, percentage recycled

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

- The scope includes both hazardous and non-hazardous wastes.
- Non-hazardous waste includes any Subtitle D Solid Waste as defined by the Resource Conservation and Recovery Act (RCRA) (40 CFR § 261.2), which includes, but is not limited to, durable goods, non-durable goods, containers and packaging, and miscellaneous inorganic wastes.¹¹
- Hazardous waste includes any Subtitle C Hazardous Waste as defined by RCRA. Hazardous wastes include those that display the following characteristics: ignitability, corrosivity, reactivity, or toxicity.

¹¹ <http://www.epa.gov/reg3wcmd/solidwastesummary.htm#waste>

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

- A hazardous waste is recycled if it is used, reused, or reclaimed. Furthermore, RCRA hazardous waste regulation makes an important distinction between materials that are used or reused without reclamation, and those that must be reclaimed before reuse. A material is reclaimed if it is processed to recover a usable product, or if it is regenerated. Common hazardous waste reclamation activities involve recovery of spent solvents (e.g., recovery of acetone) or metals (e.g., recovery of lead).¹²
- 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 made into 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 to 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 expressed 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.

¹² <http://www.epa.gov/solidwaste/hazard/recycling/index.htm>

Materials Sourcing

Description

Industrial machinery companies are exposed to supply chain risks when sourcing rare earth or “conflict” minerals and metals for products. A significant portion of revenue in this industry is spent on the cost of materials, particularly for high value metals, many of which are coming under increasing regulatory scrutiny. There are material sourcing risks of these metals due to a low substitution ratio, concentration of deposits in only a few countries, and geopolitical considerations. Companies in this industry also face competition from increasing global demand for these minerals from other sectors that can result in significant price increases and supply chain risks. 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

RT0203-07. Percentage of material costs for items containing critical materials

.18 The registrant shall calculate the percentage as: the cost of raw materials that contain critical materials, divided by total materials cost of goods sold.

- The scope of disclosure includes materials costs for parts, components, commodities, associated freight, and storage, and excludes those for overhead, labor, recalls, warranties, or other costs of goods sold.

.19 A critical material is defined as one that is both essential in use and subject to the risk of supply restriction.¹³

.20 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);
- 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).

RT0203-08. Percentage of tungsten, tin, tantalum, and gold smelters within the supply chain that are verified conflict-free

.21 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.

.22 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.

¹³ National Research Council. *Minerals, Critical Minerals, and the U.S. Economy*. Washington, DC: The National Academies Press, 2008.

- .23 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 product 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.

RT0203-09. Discussion of the management of risks associated with the use of critical materials and conflict minerals

- .24 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 availability, access, price, and reputational risks.
- .25 The registrant should identify which materials and minerals present a risk to its operations, which type of risk they represent, and the strategies the registrant uses to mitigate the risk.
- .26 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.
- .27 For conflict minerals, relevant strategies to discuss include due diligence practices, supply chain auditing, supply chain engagement, and partnerships with industry groups or nongovernmental development organizations.

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