CAR RENTAL & LEASING

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #TR0103

Prepared by the Sustainability Accounting Standards Board®

September 2014
Provisional Standard
CAR RENTAL & LEASING

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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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for Car Rental & Leasing.

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

Car Rental & Leasing companies rent or lease passenger vehicles to customers. Car rentals are typically for periods of less than a month, while leases are for a year or more. The industry includes car-sharing business models where rentals are measured hourly and typically include subscription fees. Car rental companies operate out of airport and neighborhood locations. Airport locations serve both business and leisure travelers. Neighborhood locations mostly provide repair-shop and weekend rentals. The industry is concentrated, with three dominant market players. Industry players operate globally and use a franchise model. Car rental companies use contracts with automobile manufacturers to manage their fleets. In some cases, these contracts have repurchase agreements requiring the manufacturer to repurchase the vehicle at a guaranteed depreciation rate during a specified time.
Guidance for Disclosure of Material Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Disclosure Topics

For the Car Rental & Leasing industry, SASB has identified the following sustainability disclosure topics:

- Customer Safety
- Fleet Fuel Economy & Utilization

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.

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.”
   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/.

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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.”

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Guidance on Accounting of Material Sustainability Topics

For sustainability disclosure topics in the Car Rental & Leasing 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-20 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 (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). 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.

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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).
Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

<table>
<thead>
<tr>
<th>ACTIVITY METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average vehicle age</td>
<td>Quantitative</td>
<td>Months</td>
<td>TR0103-A</td>
</tr>
<tr>
<td>Total available rental days (^7)</td>
<td>Quantitative</td>
<td>Days</td>
<td>TR0103-B</td>
</tr>
<tr>
<td>Average rental fleet size (^8)</td>
<td>Quantitative</td>
<td>Number of vehicles</td>
<td>TR0103-C</td>
</tr>
</tbody>
</table>

### 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.

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\(^7\) The total number of available rental days are defined as the number of 24-hour periods—or portions thereof—that vehicles were offered for rental during the fiscal year.

\(^8\) The average rental fleet size is defined as the simple average of the maximum number of vehicles available for rental each month for the fiscal year.
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

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Safety</strong></td>
<td>Percentage of rental fleet vehicles with overall 5-star safety rating</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>TR0103-01</td>
</tr>
<tr>
<td></td>
<td>Number of vehicles recalled&lt;sup&gt;9&lt;/sup&gt;</td>
<td>Quantitative</td>
<td>Number</td>
<td>TR0103-02</td>
</tr>
<tr>
<td><strong>Fleet Fuel Economy &amp; Utilization</strong></td>
<td>Weighted average rental fleet fuel economy</td>
<td>Quantitative</td>
<td>Miles per gallon (mpg), gCO₂/km</td>
<td>TR0103-03</td>
</tr>
<tr>
<td></td>
<td>Fleet utilization rate</td>
<td>Quantitative</td>
<td>Rate</td>
<td>TR0103-04</td>
</tr>
</tbody>
</table>

<sup>9</sup> Note to TR0103-02 - Disclosure shall include a discussion of the registrant’s policy for renting vehicles for which a recall has been issued.
Customer Safety

Description
Meeting customer satisfaction standards for the Car Rental & Leasing industry means ensuring that vehicles are in proper working condition and that customers understand how to safely operate the vehicles. Since rental vehicles accumulate significant mileage compared to private vehicles, frequent maintenance and repair is required. Vehicle recalls are of material significance to the industry, since associated repairs can temporarily reduce the available fleet, give rise to customer service issues, and reduce the residual value of cars. For companies in this industry, managing safety can mean balancing the conflict between saving on costs and ensuring safety. Adding to the complexity of the issue is the franchise model under which car rental companies operate because franchisees separately own and manage their own fleets.

Accounting Metrics

TR0103-01. Percentage of rental fleet vehicles with overall 5-star safety rating

.01 The registrant shall calculate the percentage as: the number of vehicles in its rental fleet with an overall 5-star rating from a New Car Assessment Program (NCAP) divided by the maximum total number of vehicles in its rental fleet.

.02 The calculation shall be based on the maximum number of vehicles available for rent during the fiscal year and shall include vehicles available through the registrant’s franchises.

.03 The registrant shall disclose this percentage for each geographic region for which it conducts segment financial reporting\(^{10}\) and which is subject to one of the following NCAPs:

- U.S. National Highway Traffic Safety Administration’s (NHTSA) New Car Assessment Program (NCAP) 5-Star Safety Ratings Program
- European New Car Assessment Programme (Euro NCAP)
- Japan New Car Assessment Program (JNCAP)
- Latin New Car Assessment Program (Latin NCAP)
- The New Car Assessment Program for Southeast Asian Countries (ASEAN NCAP)
- China New Car Assessment Programe (C-NCAP)
- Korean New Car Assessment Program (KNCAP)
- Australia and New Zealand New Car Assessment Program (ANCAP)

TR0103-02. Number of vehicles recalled

.04 The registrant shall disclose the total number of vehicles in its rental fleet that were subject to recall, where the scope includes voluntary recalls initiated by the vehicle manufacturer and involuntary recalls mandated by the NHTSA or equivalent national authority or agency.

\(^{10}\) As determined by FASB Accounting Standards Codification Topic 280, Segment Reporting
.05 Involuntary recalls are those required by the NHTSA or other relevant government agency, which are issued when a motor vehicle or item of motor vehicle equipment does not comply with a Federal Motor Vehicle Safety Standard, or when there is a safety-related defect in the vehicle or equipment.

- A database of NHTSA-initiated recalls is available [here](#).

.06 The scope of disclosure shall include vehicles available for rent through the registrant’s franchises.

Note to **TR0103-02**

.07 The registrant shall disclose its policy for renting vehicles for which a recall has been issued, including how this policy extends to international and franchise operations.
Fleet Fuel Economy & Utilization

Description
By providing fuel-efficient and alternative fuel vehicles, car rental and leasing companies are in a position to enhance the environmental sustainability of their operations. This opportunity is compounded by growing consumer demand for more efficient vehicles motivated by both environmental stewardship and lower operating costs associated with fuel efficiency. In addition to providing fuel-efficient and low-emission fleets, companies in the industry are adapting to changing vehicle needs by providing car-sharing services. In urban settings, car sharing is an attractive alternative to vehicle ownership that reduces congestion and environmental costs associated with private ownership of vehicles. Additionally, by maximizing fleet utilization rates, car rental and leasing companies can enhance business efficiency and potentially contribute to reduced environmental lifecycle impacts.

Accounting Metrics

TR0103-03. Weighted average rental fleet fuel economy

.08 The registrant shall disclose the fuel economy of its passenger rental fleet in miles per gallon (mpg), weighted for the rental days of each vehicle model during the fiscal year.

.09 For vehicles rented in the U.S., the registrant shall calculate its rental fleet fuel economy as the rental day-weighted harmonic mean of vehicle fuel efficiency (in miles per gallon), where:

- The harmonic mean is calculated as the reciprocal of the average of the reciprocals.
- Rental day weighting is performed by incorporating into calculations a factor for the fraction of total rental days for which each vehicle model accounted.

.10 The registrant shall use the combined fuel economy value published by the U.S. Environmental Protection Agency (EPA) and U.S. Department of Transportation (DOT) for each vehicle’s model year.

.11 The registrant shall additionally disclose its rental fleet’s performance for vehicles rented in geographic regions for which the registrant conducts segment financial reporting11 and which are subject to fleet fuel economy, fuel consumption, or emissions standards. For example:

- As a rental day-weighted average of grams of CO₂ / kilometer (gCO₂ / km) for vehicles rented in the European Union.

TR0103-04. Fleet utilization rate

.12 The registrant shall disclose its fleet utilization rate, calculated as the total number of rental days divided by the total number of available rental days.

.13 Total rental days are defined as the total number of 24-hour periods—or portions thereof—that vehicles were rented.

.14 The total number of available rental days are defined as the number 24-hour periods—or portions thereof—that vehicles were offered for rental during the fiscal year.

- This figure shall exclude the time when vehicles were undergoing inspection, cleaning, or maintenance, and any time when they were subject to recall.

.15 The scope of disclosure includes vehicles at all of the registrant’s rental locations, including airport locations, off-airport locations, and vehicles in the registrant’s car-sharing fleet.

11 As determined by FASB Accounting Standards Codification Topic 280, Segment Reporting.

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