



Sustainability – current reporting and governance developments

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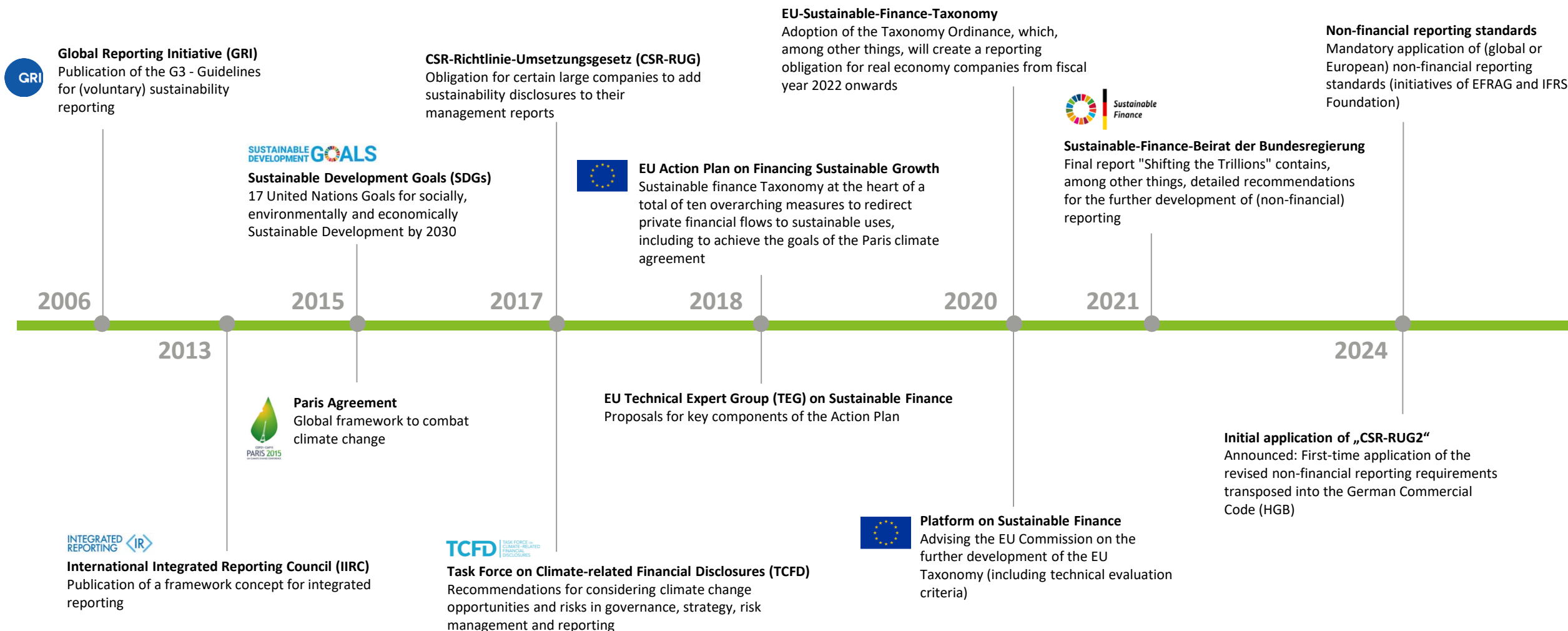
13. SEPTEMBER 2022



MAKING AN
IMPACT THAT
MATTERS
since 1845

Timeline

Further developments of non-financial reporting



Overview of Relevant Regulations and Frameworks

Regulation: so far focussed on reporting, now taking into account governance

EU Level

CSRD

from 2024

- Significant expansion of reporting scope and timeframe
- Integration/combination of NFS into management report
- Obligation for external assurance
- Mandatory standards in development (EFRAG)

EU Taxonomy

from 2021

- FY2021: Taxonomy eligibility regarding environmental objectives 1+2
- FY2022: Taxonomy alignment regarding env. objectives 1+2
- FY2023: Taxonomy alignment regarding env. objectives 1-6

National Level

LkSG

from 2023

- Requires companies to identify, analyze and assess negative impacts on human rights and the environment and to implement mitigations measures
- Obligation to publish LkSG-report

German Corporate Governance Code

from 2022

- DCGK n.F. requires Board of Directors to consider sustainability-related impacts, opportunities and risks, which also need to be integrated into ICS

Voluntary Reporting Standards

TCFD

- Recommendations address strategy, governance, risk management, metrics and targets regarding climate change

GRI

- Updated standards to use from 2023; sector specific standards in development

SASB

- Sector specific standards including qualitative and quantitative indicators

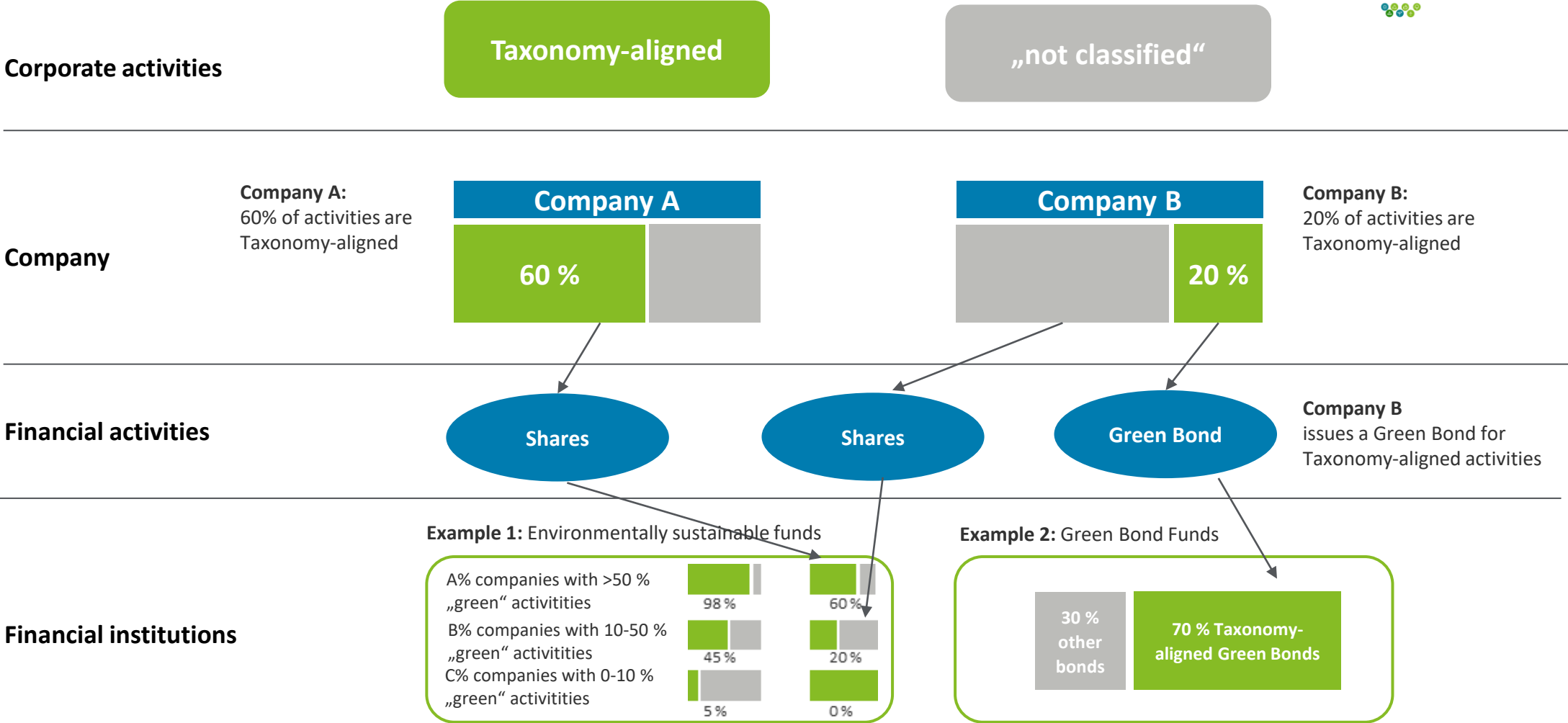
<IR> Framework

- Common reporting framework and Integrated Thinking Principles

The rising expectations for more and higher quality ESG information will require adequate reporting systems and processes, including a higher degree of automation.

Overview

Possible Taxonomy context

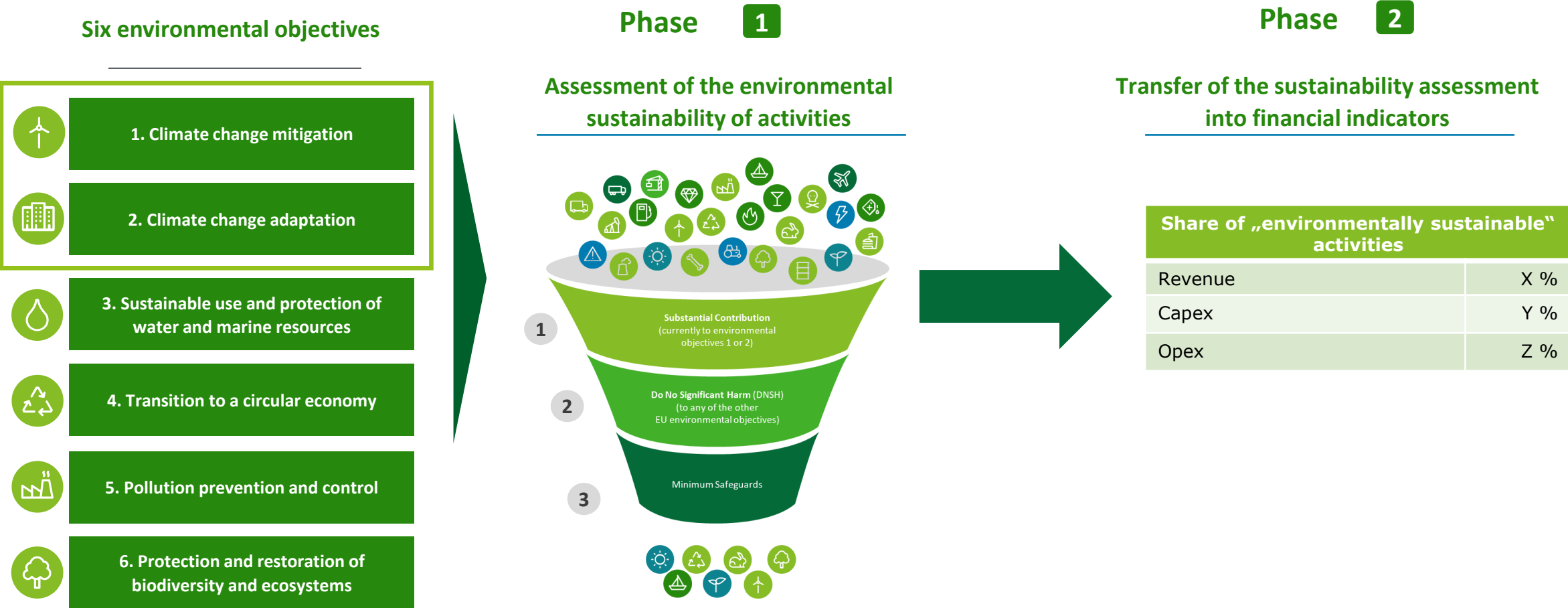


X % of the funds are Taxonomy-aligned

70 % of the funds are Taxonomy-aligned

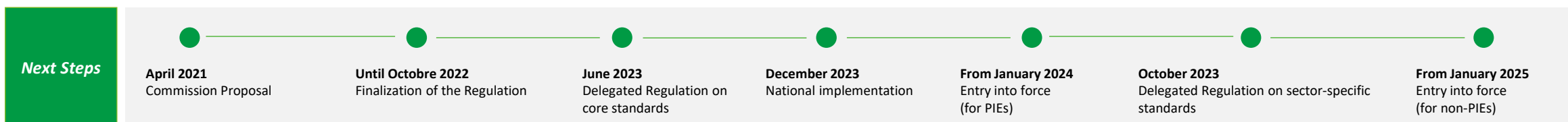
Overview: EU Taxonomy

Procedure for evaluating the activities and determining the environmentally sustainable share



Revision of the Corporate Sustainability Reporting Directive (CSRD)

In the future, more companies will have to publish concrete, standardized and audited sustainability information in the management report.



Overview of major changes made by the revision



Improved Availability

Companies in scope

- All large companies, regardless of capital market orientation
- The current threshold shall be reduced from 500 to 250 employees

Integrated Reporting

Mandatory reporting in the management report

Virtual raw database for the disclosure of sustainability data

Digital tagging analogous to financial reporting



Proven Reliability

Content-related audit requirement

Initially with limited assurance

Clarification of governance obligations

- In particular, management responsibility for sustainability reporting
- The Supervisory Board remains obliged to review the disclosures
- The Audit Committee is also responsible for monitoring sustainability reporting and its systems/processes



Expanded Materiality

Clarification of double materiality

Relevant social and/or environmental effects alone sufficient for reporting obligation, without consideration of economic relevance



Improved Comparability

Specification of the report content

- Defined sustainability topics (environment, social and governance)
- Stronger focus on business strategy and link with sustainability objectives/-risks
- Additional reporting on non-physical resources that contribute to value creation
- Change in wording: Move away from "non-financial" to "sustainability information"

Application Framework

Development of binding sustainability reporting standards by the EU, taking into account industry specifications

Consistency with EU rules

Including EU taxonomy; disclosure requirements in the financial services sector

German Corporate Governance Code (DCGK)

“...puts particular emphasis on sustainable corporate governance”

- Managing Board: Attention for sustainability-related impacts, opportunities and risks



- Internal control system shall also cover sustainability information



- Supervisory Board: Oversight over sustainability performance; competencies



REGIERUNGSKOMMISSION

Deutscher Corporate Governance Kodex

PRESS RELEASE

Frankfurt am Main, 27 June 2022

New German Corporate Governance Code in force

The latest version of the German Corporate Governance Code (GCGC) enters into force today. The Federal Ministry of Justice published the revised version dated 28 April 2022 in the Federal Gazette today.

The new Code, which has also been published on the website of the Regierungskommission Deutscher Corporate Governance Kodex together with a rationale, contains updated principles and extended recommendations for management and supervisory boards of listed companies.

Following the latest reform, the Code puts particular emphasis on sustainable corporate governance. The management board shall systematically identify and assess the opportunities and risks for the company associated with social and environmental factors, as well as the environmental and social impacts of the company's activities. Also, environmental and social goals shall be taken into account in corporate strategy and planning.

German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz, LkSG)

At a glance

- **Effective date:** 1 January 2023
- **Scope of Application:** All companies with more than 3.000 employees in Germany
- **Aim of the law:** Obligation of German companies to protect human rights and environmental rights in their supply chains
- **Supply chain** (“Lieferkette”): The term is understood broadly and includes all steps in Germany and abroad that are necessary to manufacture the company's products and provide its services
- The SCDDA requires a **risk management** in the sense of a cycle. **Key measures** to be implemented are:
 - **Risk analysis** to identify relevant human rights and environmental risks in the **own business area** as well as with **tier 1 suppliers**
 - **Prevention** measures to minimize the identified risks
 - Implement a company-wide **complaints mechanism** for people to report human rights violations and environmental violations

Effect

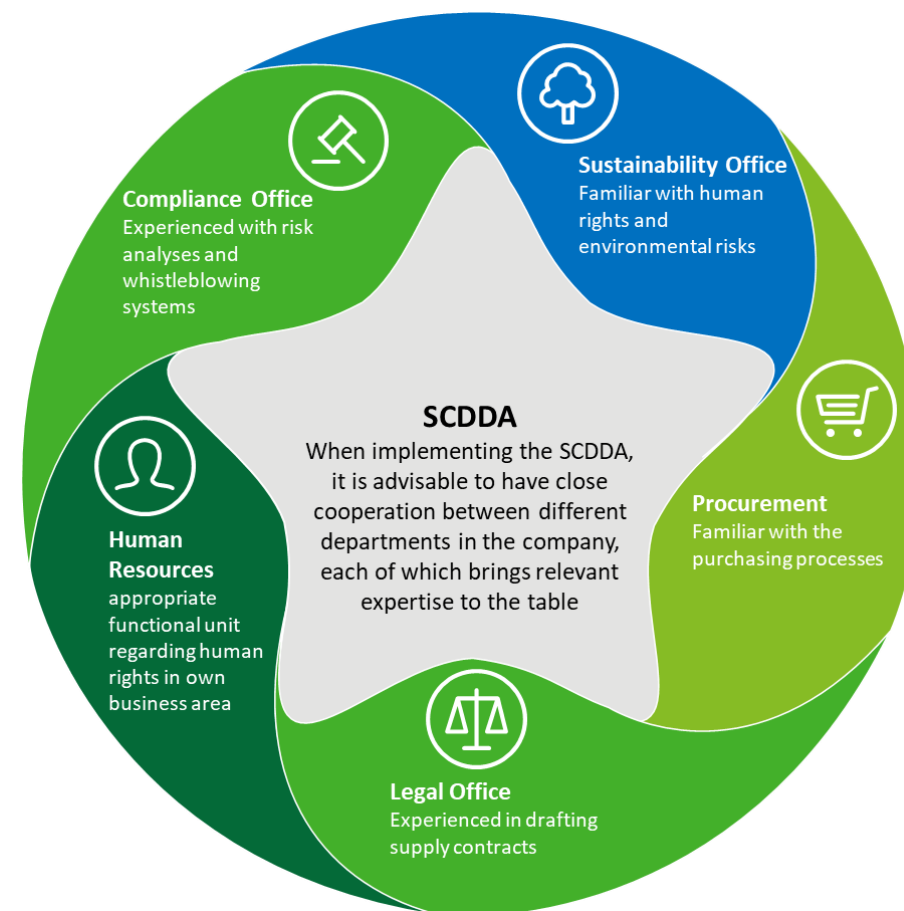
Sanctions for violations:

- **Fine** of up to 2% of the average annual turnover of all worldwide Group companies
- **Exclusion** from procedures for the award of contracts by contracting authorities for up to 3 years

Involved Parties

As a first step, responsibilities must be identified at board level (horizontal) and within the organization (vertically)

- It already follows from the general **organizational duties of the Executive Board** that it must clearly define the responsibilities (horizontal and vertical) in the case of a delegation of statutory duties that affect it
- **Sec. 4 (3) SCDDA** clarifies this organizational obligation and requires the **concrete definition of responsibilities** for the fulfilment of statutory due diligence obligations
- If, as expected, several company departments at the company are entrusted with the implementation of the SCDDA, the **tasks** of the departments and persons involved must be **clearly defined** and **without overlap**



Conclusion

- Sustainability is not a trend, it is here to stay
 - Relevant for access to financial capital markets
 - Relevant for public acceptance
- Sustainability departments – collaboration necessary: *
 - Sustainability = technical knowledge, other departments: methodological knowledge
 - **Accounting** / Sustainability: European Sustainability Reporting Standards, reporting and control systems, mandatory assurance
 - **Controlling** / Sustainability: KPIs, investment decision analysis, internal management reporting
 - **Risk management** / Sustainability: esp. Climate-related risks under scrutiny from investors and regulators
 - **Compliance** / Sustainability: governance, supply chain due diligence

* Indicative list, depends on company-specific responsibilities, potentially further/other departments necessary

For reading...



Zusammenfassung der
EFRAG Exposure Drafts zu
ESRS



Politische Einigung zur Corporate
Sustainability Reporting Directive
(CSRD)



Fallstudie zur EU-Sustainable-
Finance-Taxonomie

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