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Sustainability – current reporting and governance developments

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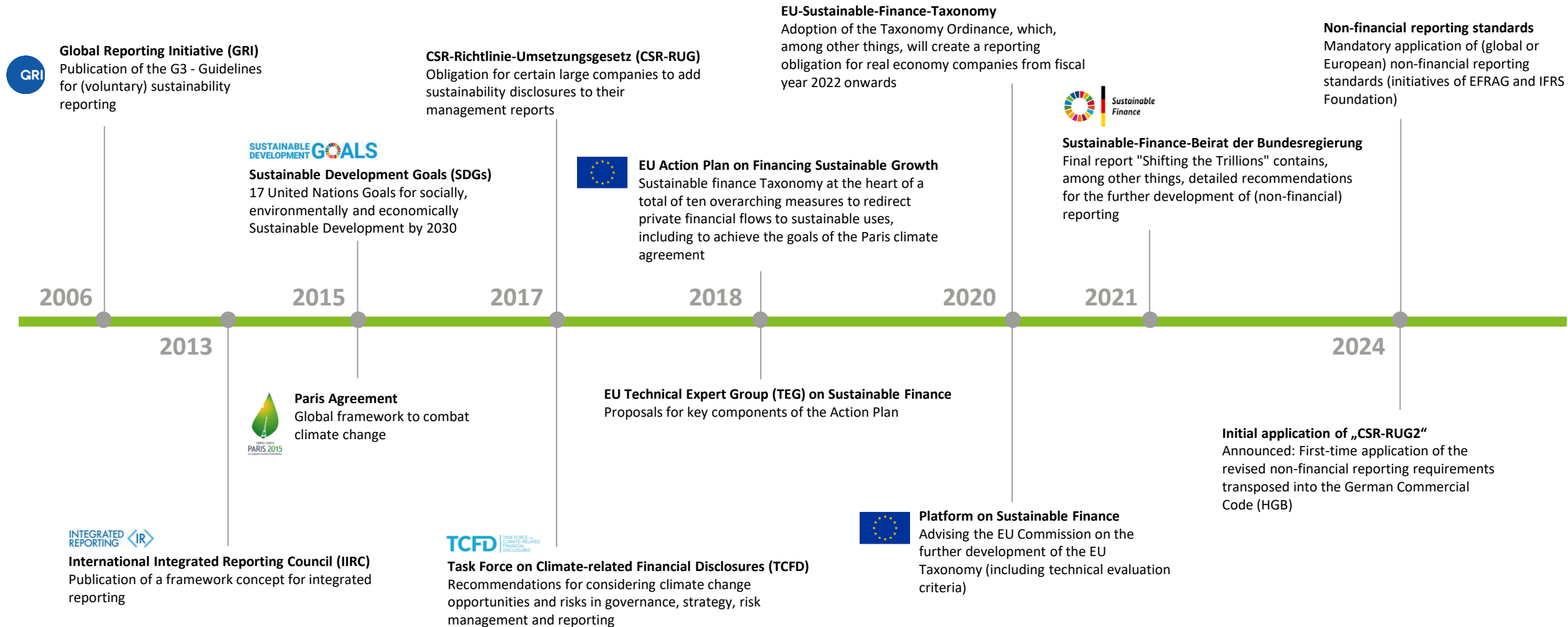
13. SEPTEMBER 2022



MAKING AN
IMPACT THAT
MATTERS
since 1845

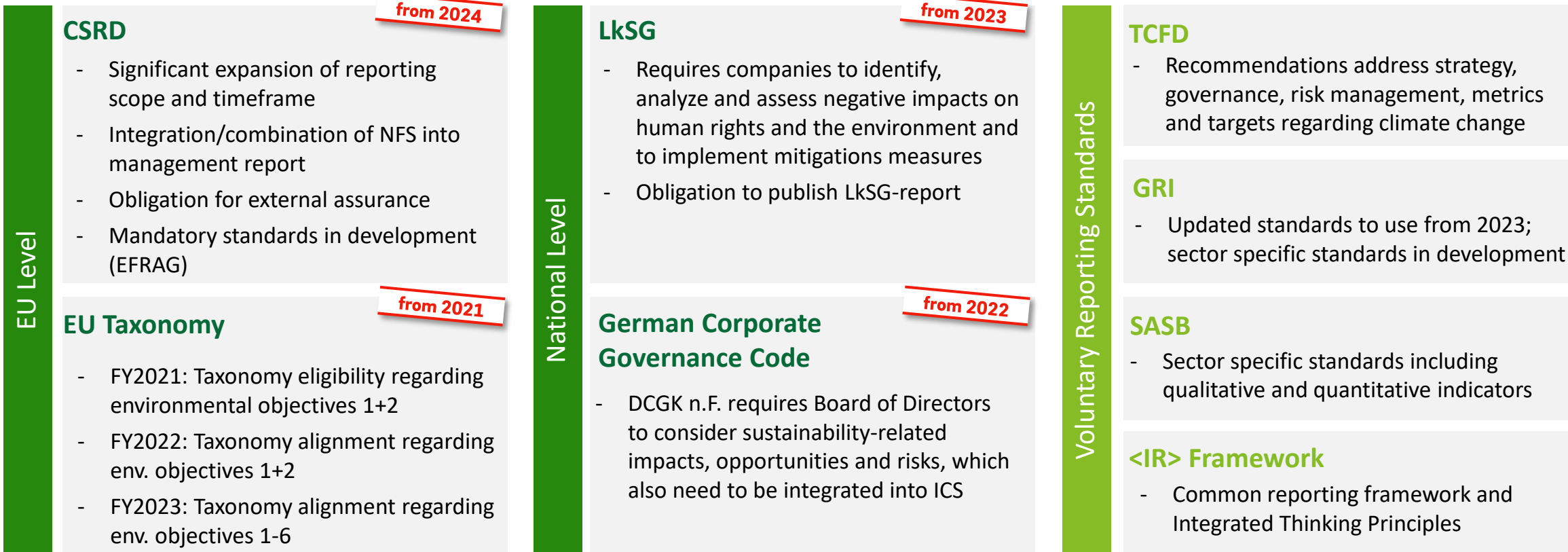
Timeline

Further developments of non-financial reporting



Overview of Relevant Regulations and Frameworks

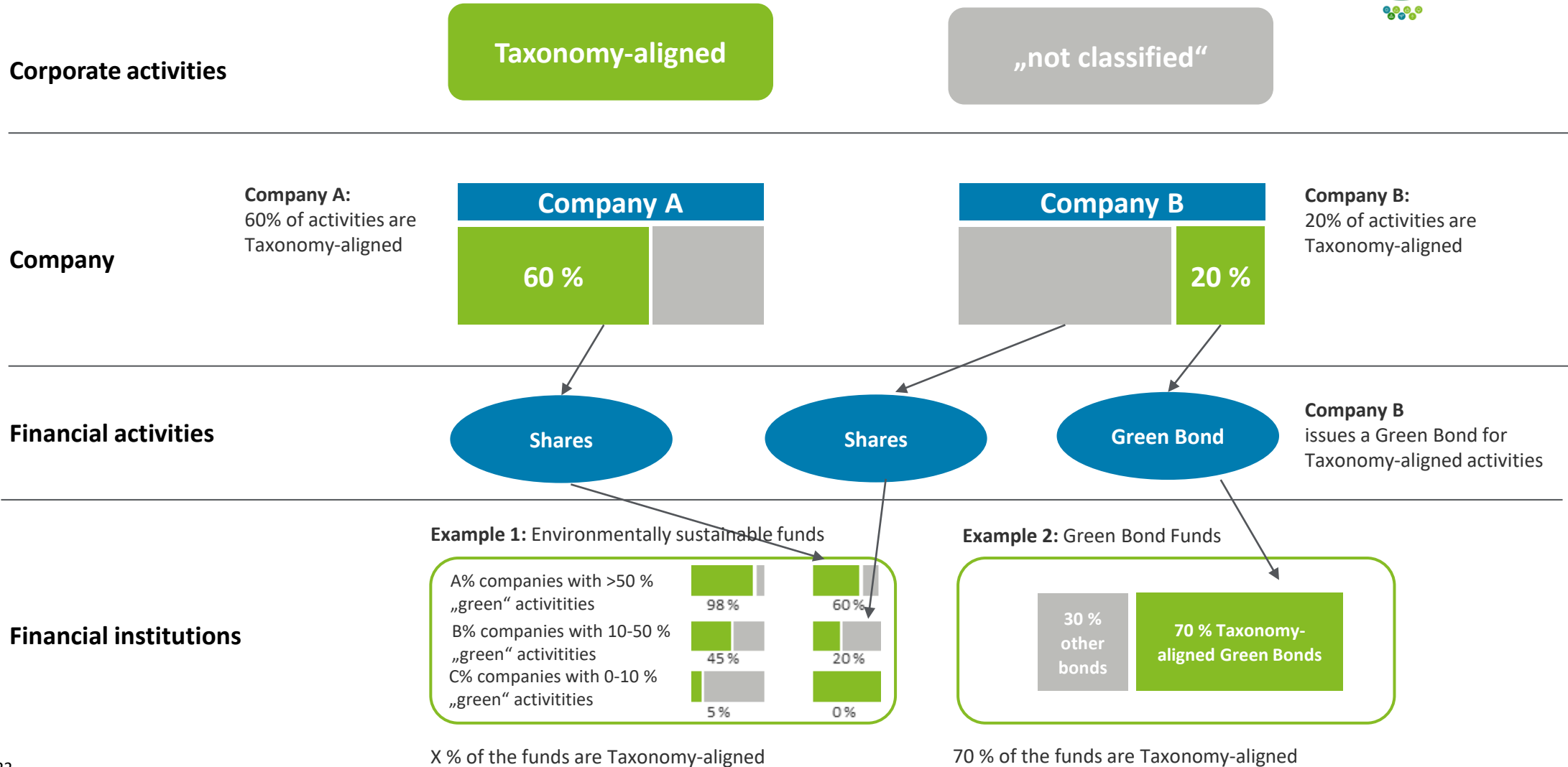
Regulation: so far focussed on reporting, now taking into account governance



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

Overview

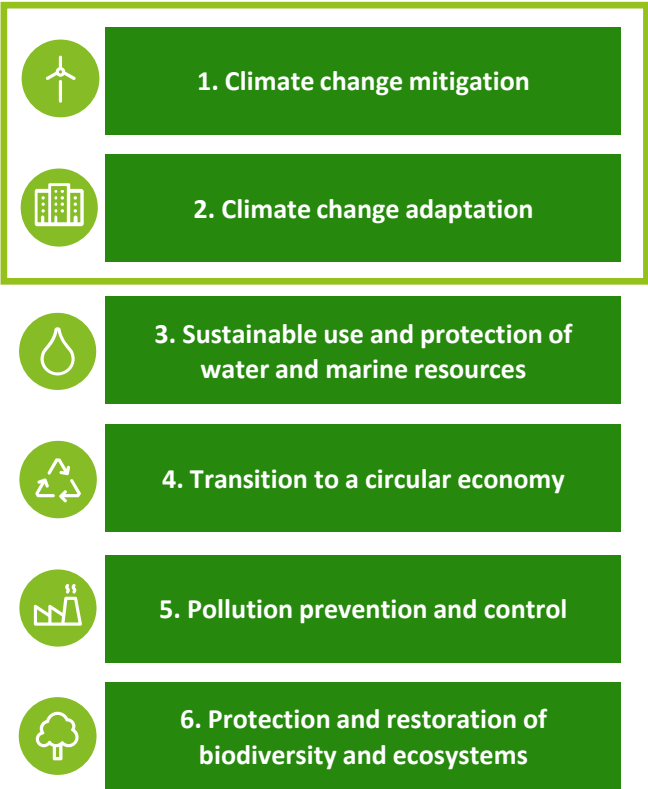
Possible Taxonomy context



Overview: EU Taxonomy

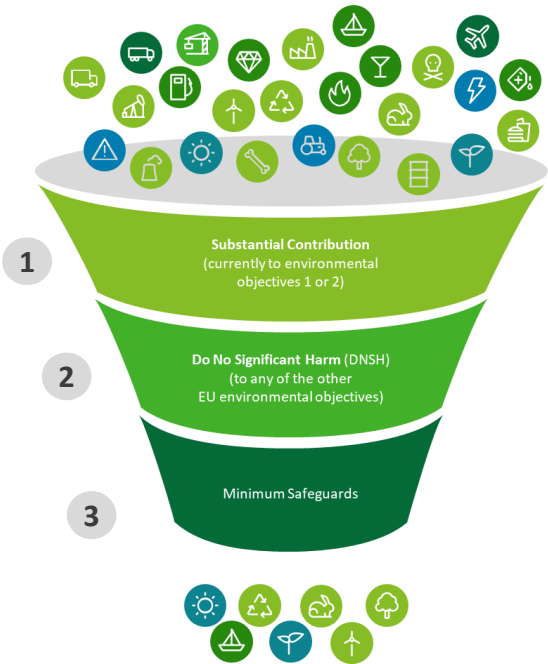
Procedure for evaluating the activities and determining the environmentally sustainable share

Six environmental objectives



Phase 1

Assessment of the environmental sustainability of activities



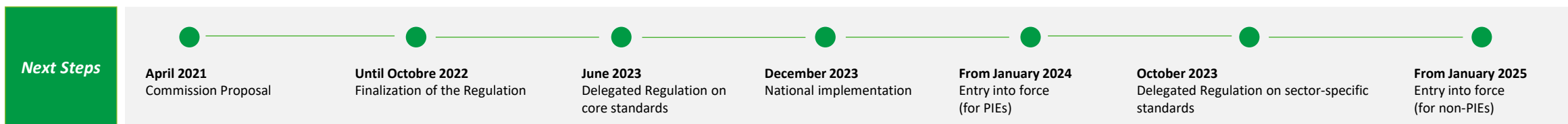
Phase 2

Transfer of the sustainability assessment into financial indicators

| Share of „environmentally sustainable“ activities | |
|---|-----|
| Revenue | X % |
| Capex | Y % |
| Opex | Z % |

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

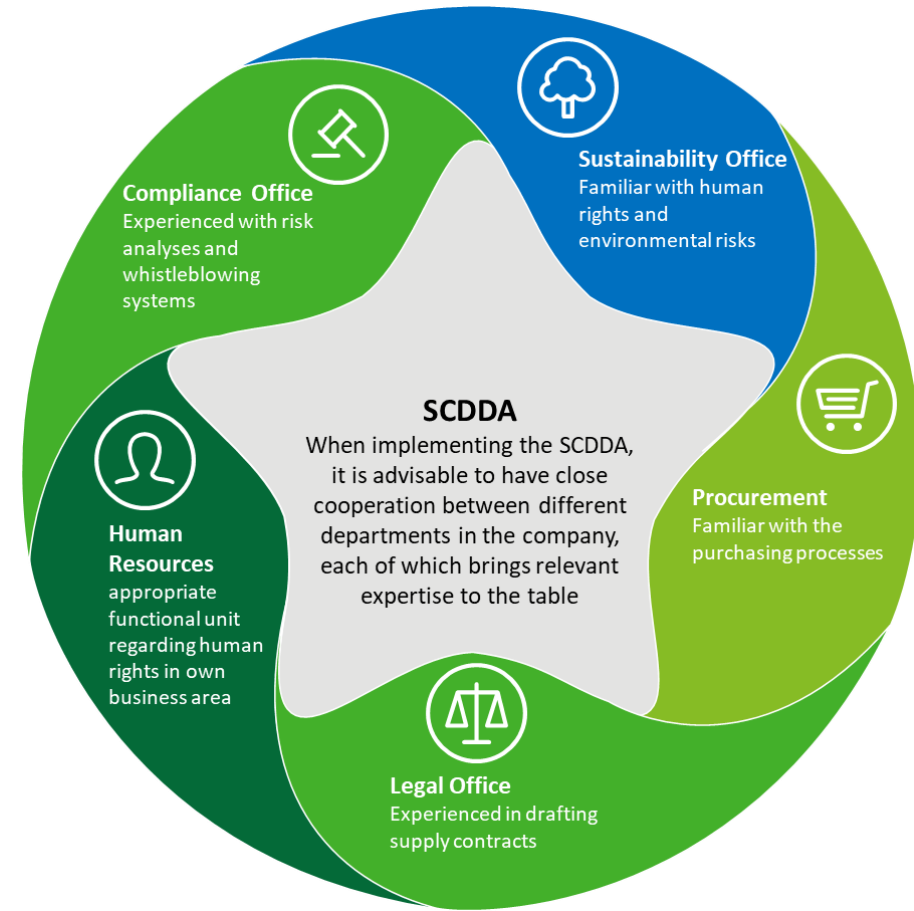
Sanctions for violations:

- **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...

Deloitte. IFRS and Corporate Reporting
Centre of Excellence
Nr. 3 | Mai 2022



iGAAP fokussiert
Nachhaltigkeitsberichterstattung
EFRAG veröffentlicht Exposure Drafts zu European Sustainability Reporting Standards (ESRS)

Am 29. April 2022 hat die European Financial Reporting Advisory Group (EFRAG) über die Project Task Force on ESRS (PTF-ESRS) 13 Standardentwürfe (Exposure Drafts, ED) für neue European Sustainability Reporting Standards (ESRS) zur Offenlegung von Nachhaltigkeitsinformationen veröffentlicht.

Die Standardentwürfe umfassen Vorschläge für

- zwei übergreifende Standards,
- fünf Standards zu Umweltthemen,
- vier Standards zu sozialen Themen und
- zwei Standards zu Governance-Themen.

Die Entwürfe gehen auf Vorgaben des Entwurfs der Europäischen Kommission (EC) zur Corporate Sustainability Reporting Directive (CSRD) zurück. Diese sieht vor, dass Unternehmen künftig über Nachhaltigkeitsinformationen unter Anwendung der von EFRAG entwickelten ESRS berichten müssen.

Die Kommentierungsfrist beträgt 100 Tage. Die Standardentwürfe können somit bis zum 8. August 2022 kommentiert werden.

Zusammenfassung der EFRAG Exposure Drafts zu ESRS

Deloitte. IFRS and Corporate Reporting
Centre of Excellence
Nr. 4 | August 2022



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Nachhaltigkeitsberichterstattung
Politische Einigung zur Corporate Sustainability Reporting Directive (CSRD)

Am 21. Juni 2022 wurde im Trifling zwischen Europäischer Kommission, Europäischem Parlament und Europäischem Rat eine vorläufige politische Einigung zur Corporate Sustainability Reporting Directive (CSRD) erreicht. Damit ist der Weg frei für eine baldige Verabschiedung sowie der Finalisierung der European Sustainability Reporting Standards (ESRS), da diese auf Vorgaben in der CSRD zurückgehen und vorsehen, dass Unternehmen künftig über Nachhaltigkeitsinformationen unter Anwendung der von EFRAG entwickelten ESRS berichten müssen.

Wesentliche Änderungen im Rahmen der Nachhaltigkeitsberichterstattung ergeben sich u.a. durch

- eine Ausweitung der nachhaltigkeitsbezogenen Berichtspflichten und des Anwendungsbereichs,
- eine zeitlich gestaffelte Erstanwendung,
- eine Standardisierung der Berichterstattung durch die ESRS,
- einer gestaffelten Erstanwendung,
- einer Verorsung der Berichterstattung als gesonderten Abschnitt im Lagebericht sowie
- einer externen Prüfungspflicht.

Politische Einigung zur Corporate Sustainability Reporting Directive (CSRD)

EnBW

Fallstudie zur EU-Sustainable-Finance-Taxonomie 2.0

Darstellung der Taxonomie-Konformität des EnBW-Geschäftsportfolios im Integrierten Geschäftsbericht 2021



mit Unterstützung von **Deloitte.**

Fallstudie zur EU-Sustainable-Finance-Taxonomie

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