Universität Hamburg
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German Sustainability Code

Conceptual Design and Initial Outcomes of Dialogue Phase

Conceptual Design of the German Sustainability Code

Starting Point

- Sustainability is gaining in significance among all stakeholder groups
- Growing need for reliable and comparable information
- Only partial standardisation and comparability to date
- German Council for Sustainable Development proposes creating a German Sustainability Code

Aim: to make sustainability stand out through greater transparency, comparability and binding commitment

- Tap new investor groups for companies
- Facilitate access for mainstream investors
- Raise consumer awareness
- Promote innovation
- Define standardised minimum requirements of companies
- Disclose reliable information

Scope and Application

- Based on the UN Global Compact
- Key Performance Indicators for Environmental, Social and Corporate Governance Issues (KPIs for ESG) of the Global Reporting Initiative and the EFFAS/DVFA are included
- Sector-specific differences given through inclusion of references
- Valid for all companies of a certain size
- Implementation based on "comply or explain" principle with higher commitment
- Discussion of various forms of commitment

The GSC is divided into four areas

- Strategy
- Process management
- Environment
- Society

The development takes place over several stages

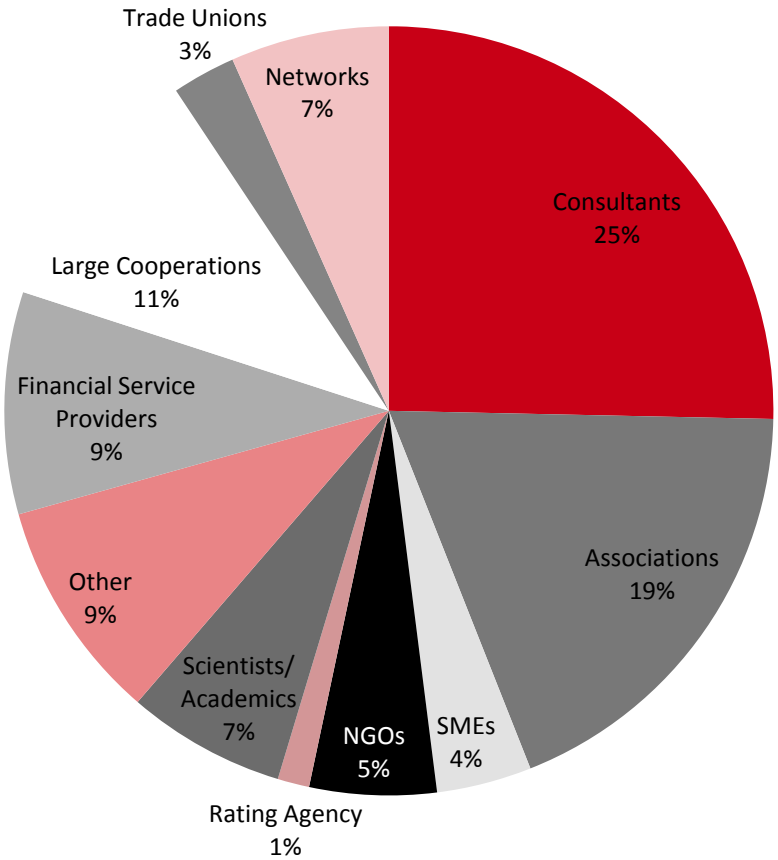
- Groundwork at expert level, starting in May 2010, involving investors, analysts, corporate representatives, scientists/academics, experts in corporate governance
- Broad-ranging dialogue from 1.12.2010 to 25.2.2011
- Dialogue workshop in Berlin on 18.3.2011
- Expert workshop in Frankfurt on 9.5.2011
- Pilot phase in June 2011

Outcomes of Dialogue Phase

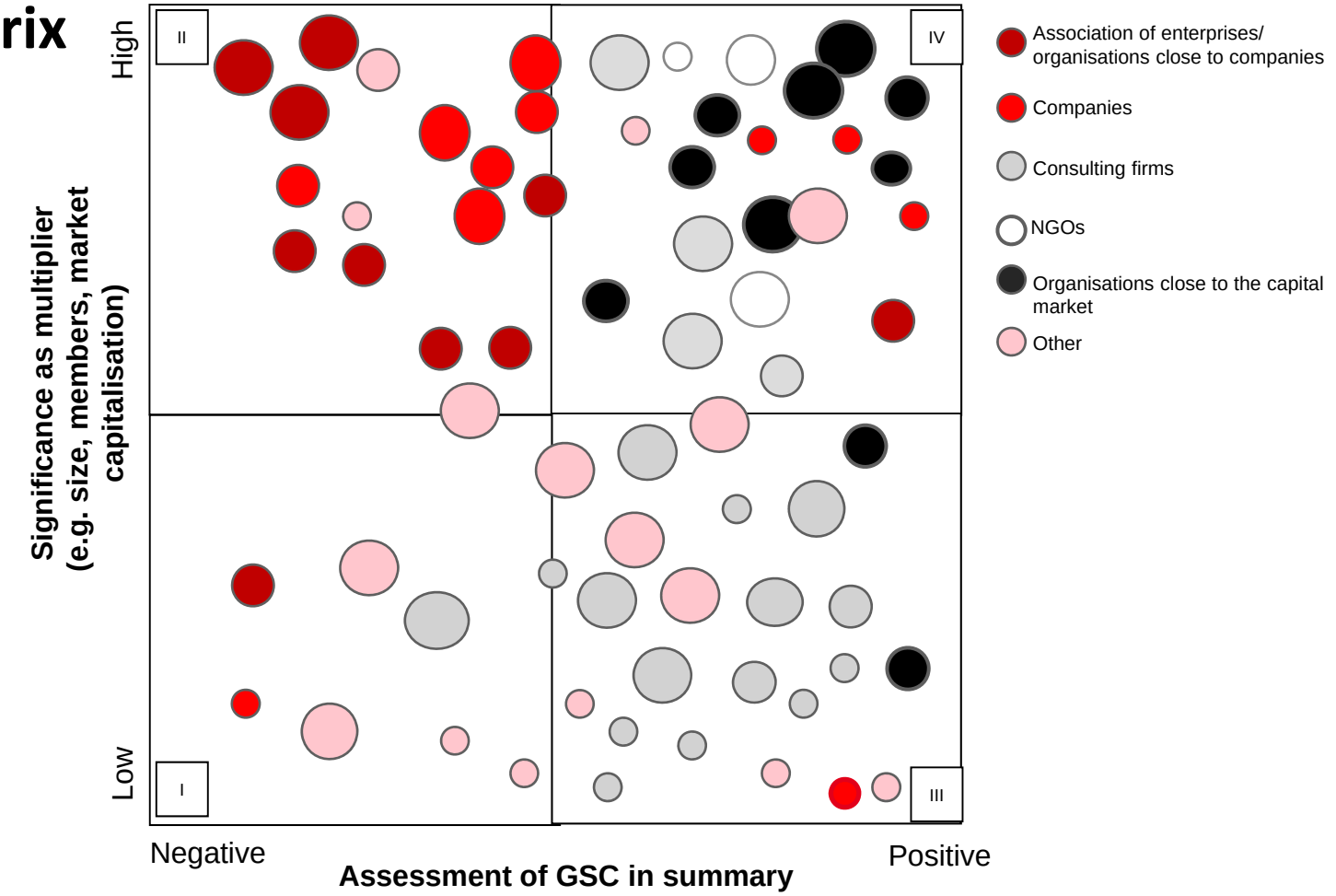
Dialogue Feedback

AKNU AmCham CR Committee AVE Außenhandelsvereinigung des Deutschen Einzelhandels e.V. B.A.U.M. Bank Sarasin Bayer AG BDA BDI Econsense BearingPoint Beratung für nachhaltige Unternehmensführung Bertelsmann-Stiftung BITCOM Brot für die Welt Bundesverband des deutschen Versandhandels Bundesverband Ethik Convivent Vermögensberatung CoReCo - Corporate Responsibility Consulting CQC Consulting DCTI – Deutsches CleanTech Institut deep white Deutsche Post DAI DIHK DNWE DVFA DWS/db advisors, EBBF EON Erfolgsfaktor Frau e.V. Eumedion (NL) Fahrradstadt Wilhelmsburg e.V. Forum nachhaltige Geldanlage future Futureparty.net Germanwatch Gesamtverband der Deutschen Versicherungswirtschaft e.V. GLS Bank GUTcert ICGN IG BCE IMUG Infineon Institut für Nachhaltigkeitsmanagement Institut für ökologische Wirtschaftsforschung (IÖW) Johanssen + Kretschmer Strategische Kommunikation Leading Standards GmbH, MAMA Sustainable Incubation AG manomama GmbH Markenverband e.V. Metro oekom research AG PE INTERNATIONAL Projektgruppe Ethisch-Ökologisches Rating an der Universität Frankfurt Puma PwC Regierungskommission DCGK REWE RWE SBI sneep tetrateam Transparency International - Deutschland e.V. Triodos Bank Umweltvorsorge Universität Bremen VAUDE vbw - Vereinigung der Bayerischen Wirtschaft e. V VERDI VFA Institute Dr. Lutz Cleemann Dr. Alexandra Hildebrandt Jonas Gebauer Dr. Thomas Schulz

Feedback by Sector (n=75)



Response Matrix

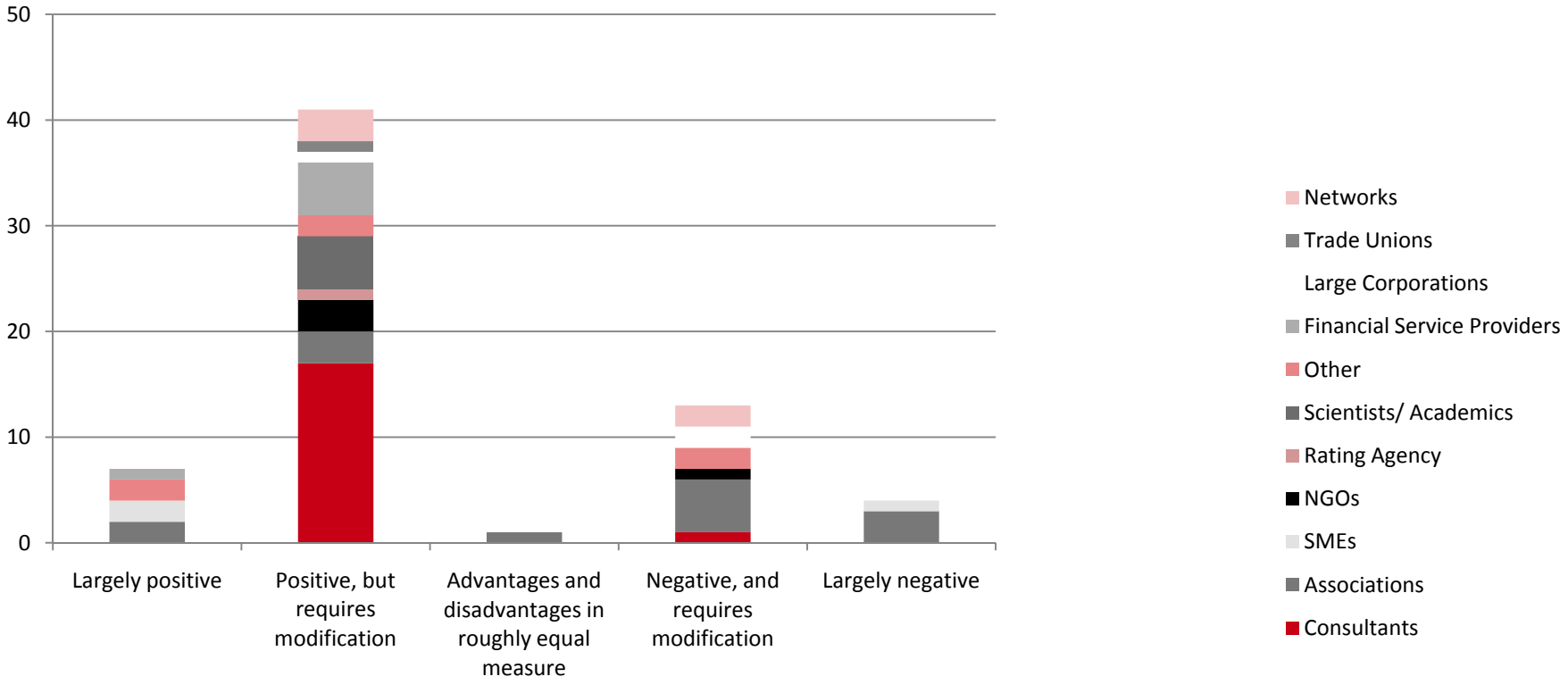


-Size:
Substantive details of response

n=75 (valid as of: 16.3.2011)

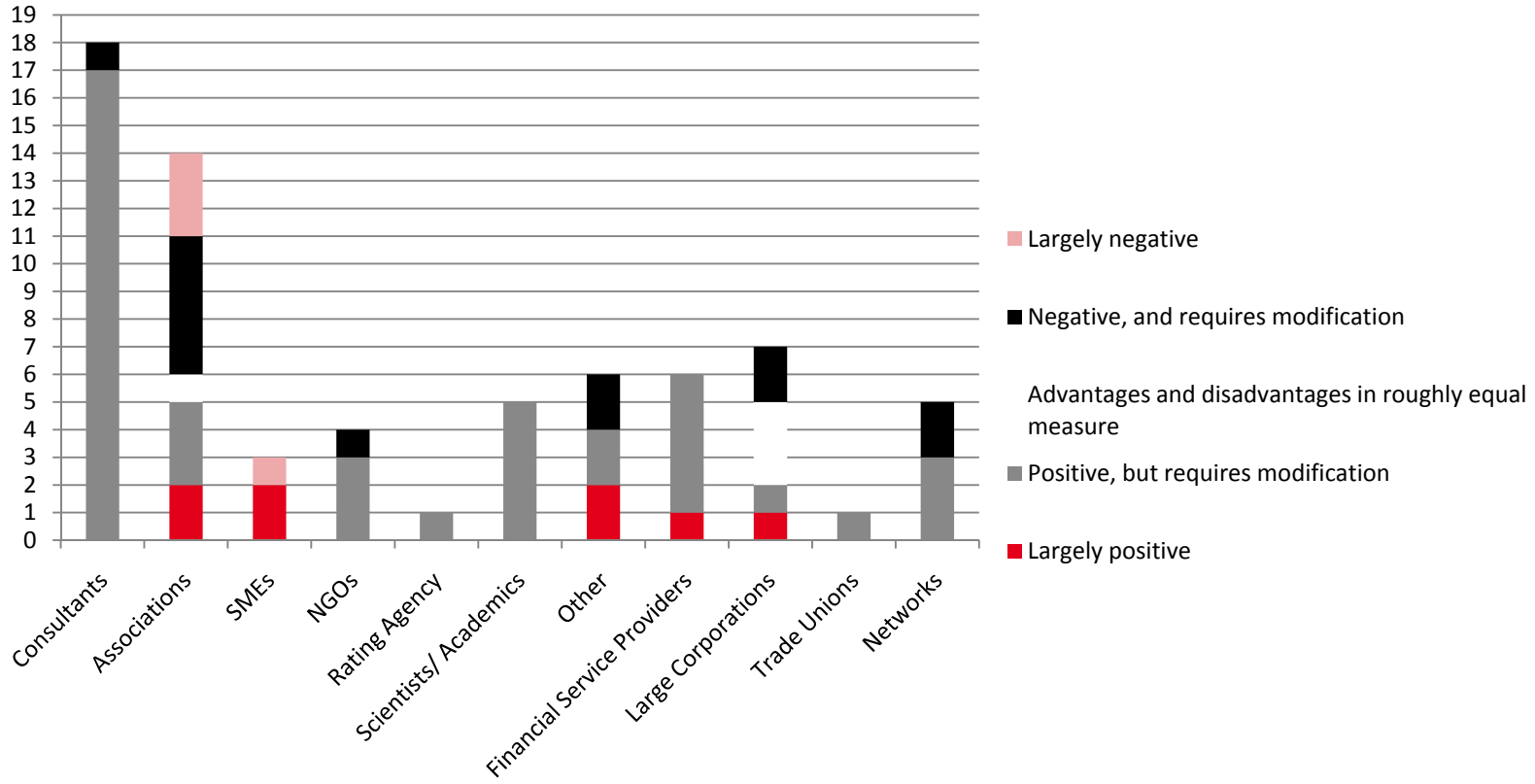
Fundamental evaluation…

…by assessment

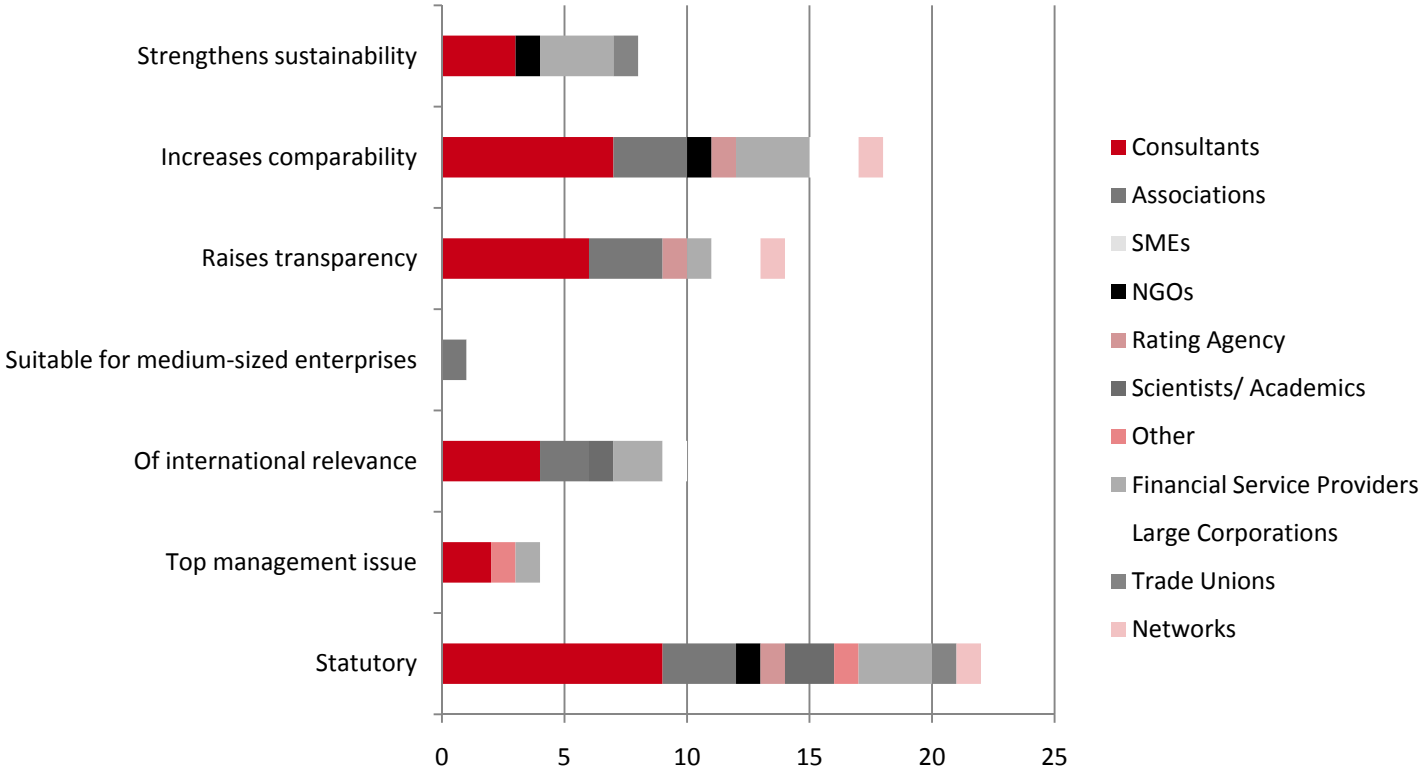


Fundamental evaluation…

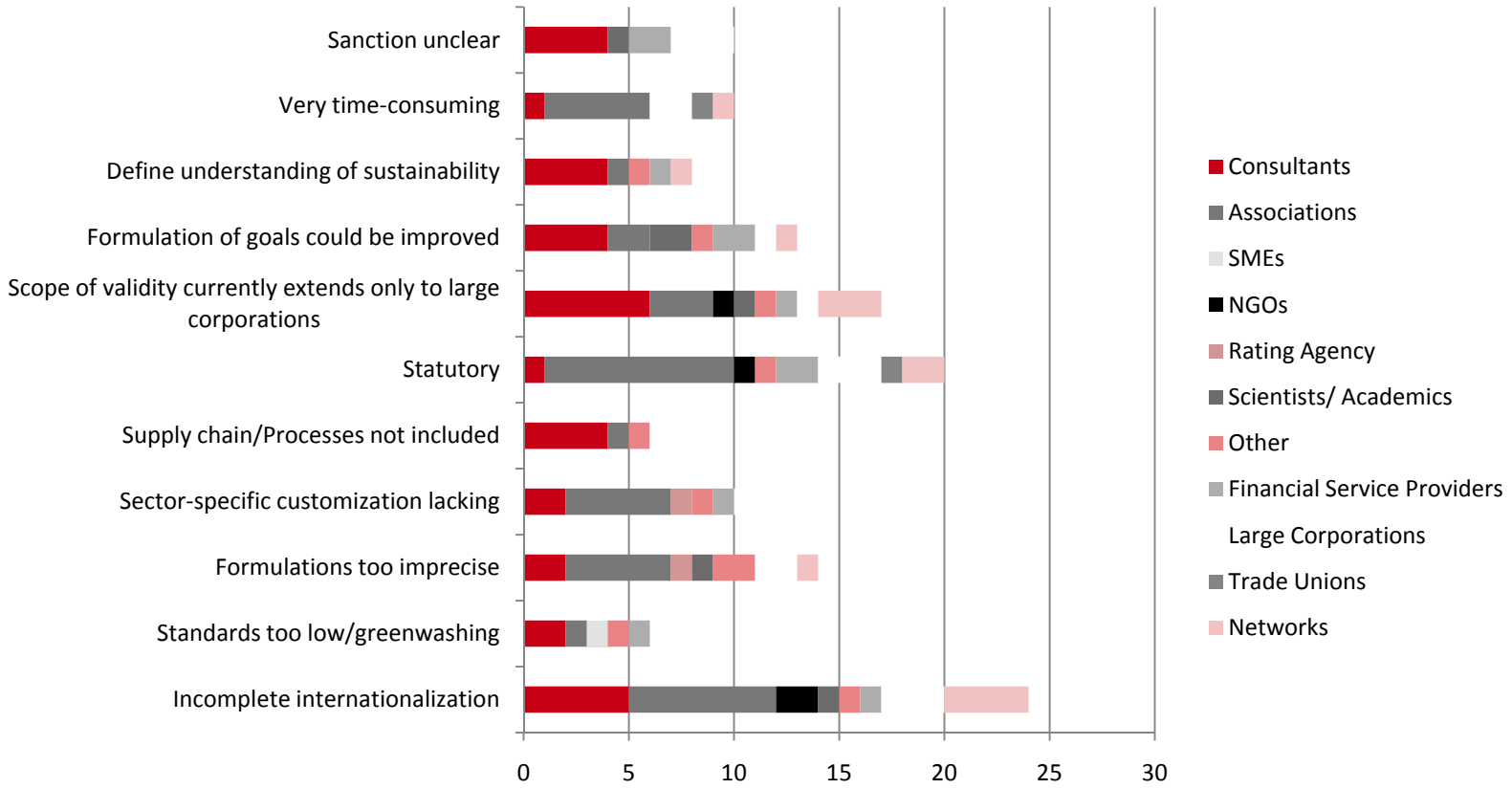
…by stakeholder



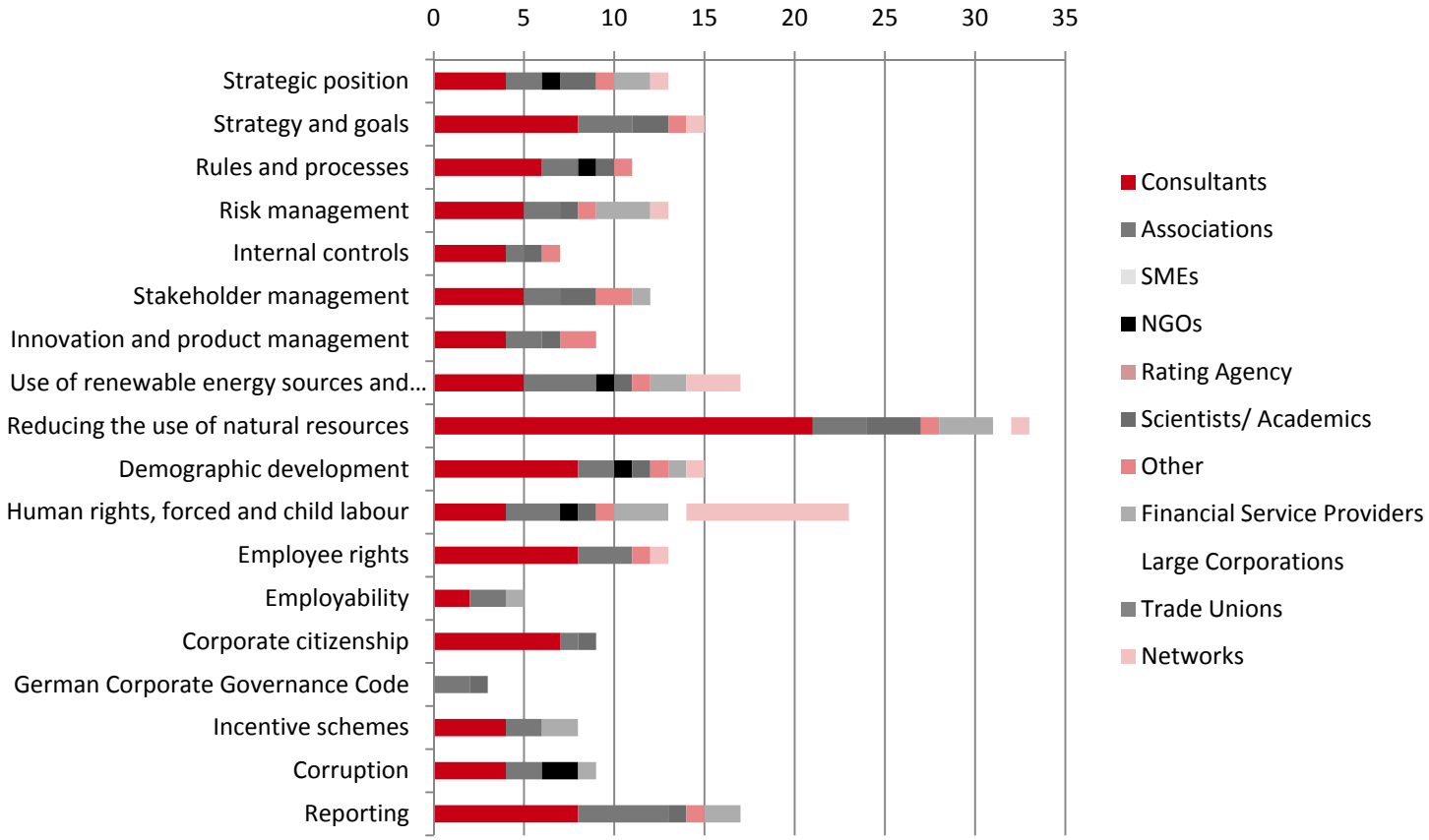
Positive Assessments



Negative Assessments



Assessments of Individual Code Criteria



Summary of present status of dialogue phase

- Dialogue phase has been greeted very constructively
- Feedback rate, public perception and discussion (specialist media, Xing, utopia.de) very encouraging
- Vast majority of responses favour the GSC, but believe there is a need for clarification
- Wide consensus for required need for standardisation and increased binding commitment
- Opinions diverge on the right way to go about this

Key Points of Discussion

1. Scope of validity of the GSC
2. Binding commitment; legal entrenchment
3. Definition of vague (legal) terms
4. Performance indicators
5. Limits of system / Supply chain
6. International / European relevance
7. Implementation stages; participation phase

Alternatives to Key Points of Discussion

Alternative Means of Implementing the Code

- Self-commitment through companies
- Introduction of a GSC certificate with auditing and certification carried out by suitably accredited centres
- The declaration of conformity would be subject to an audit (limited or reasonable assurance), followed by a public announcement
- Linkage to the private-law regulations governing the stock exchange (e.g. requirement to have different transparency standards)
- Concretisation of §§ 267, 289 and 315 of the German Commercial Code (HGB) in conjunction with German financial reporting standards (DRS) 15 (management report)
- Analogy to § 312 of the German Stock Corporation Act (AktG)
- Based on Article 161 of the German Stock Corporation Act: this alternative has been dropped.

Envisaged Scope of Validity

- Broaden to cover SMEs (of a certain size)

The alternatives were to:

- focus on listed companies
- broaden to cover listed and large corporations
- broaden to cover all organisational forms
- Tiered standards between sizes/organisational forms

International Relevance

- Illustrate how Code criteria relate to international standards, esp. those of GRI, EFFAS, ISO 26000, Ruggie Framework
- Adherence to the GSC through reporting procedures defined by standards (GRI, EFFAS)
- Incorporation of the idea of such a Code in the EU discussion on non-financials
- …..

Limits of system / Supply chain

- Along the lines of the GRI: "Control: the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Significant influence: the power to participate in the financial and operating policy decisions of the entity but not the power to control those policies."
- *Along the lines of EFFAS: Following IAS 27, it is recommended that corporates comply with the following rules:* KPI *shall be applied in the preparation and presentation of consolidated ESG statements for a group of entities under the control of a parent. (compare to IAS 27.1), KPIs shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate ESG statements or parts thereof. (compare to IAS 27.4)*

Participation Phase

- The participation phase seeks to illustrate the extent to which the information contained in the GSC is used by investors and analysts.

  1. Pilot phase for first movers, from 01.06.2011 to 30.06.2011

  2. Second phase for fast followers, until 15.08.2011

- A group of companies will apply the GSC voluntarily and confidentially. Analysts and investors will examine how useful the information is. RNE will make a template available for this purpose.
- The next steps to be taken in terms of additional workshops and the publication of the outcomes will be agreed upon in conjunction with the companies.
- The GSC will be presented to RNE in October 2011 for approval.

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