It´s time for ESG alignment. It´s time for a global transparency framework

Address of welcome
by
Marlehn Thieme,
Chairwoman of the German Council for Sustainable Development
Reception for the International Integrated Reporting Council
April 26, 2012 in Frankfurt a.M.

Dear Ladies, dear Gents,

thank you for the opportunity to speak to you, exquisit members of the International Integrated Reporting Council, dear hosts of this reception.

In these days everybody is concerned, whether we have learnt whether the crisis of financial markets comes back. Today's economy is characterized by the global division of labor, resources, rapid communications and a global financial market. Societies have become more vulnerable. Therefore, the economy is more than ever reliant on specific framework conditions and confidence. The financial crisis spelled out the risks for everyone. It raised the question of whether the paradigms of the last years are the right way forward: freedom, deregulation and an increasing role of the markets compared to governments have not proved to develop our economies without any problems. What does the economy look like that we want to live with? How can we, across borders and generations, foster sustainable development worldwide?

One of the most important lever and obstacle to answer these questions is the capital market.

In the 20th century, the German blueprint for a stable and well-performing economy was the social market economy.

Now we need a more global oriented governance framework that promotes competition while resolving social and ecological challenges and conflicts together.

The issues, whose international potential for conflict must not be underestimated, are:

- Globalization
- Climate change
- Demographic shifts and
- Resource scarcity.

These issues affect peace, justice and sustainable business. The ability of business is, to make a difference. We all know: The market is able to adjust pretty fast to necessities and raising bars or prices. It should be developed in a way, which supports enterprises fostering a sustainable development instead of denying the surrounding field.

In my point of view, it is urgently necessary to develop a social and ecological market economy with a strong global dimension. The aims are to channel capital into business cases contributing to sustainable development.

There is a window of opportunity to shape the market that honors entrepreneurial efforts towards sustainability. I see three indicators:

1. The UN Conference on Sustainable Development in Rio 2012 lays its main focus on “green economy”. The issue of a global transparency framework is one of the few topics where an agreement is expectable.

2. National governments are highly criticized for their debt policies – and disciplined by stock markets, as we see again and again. I consider this as a chance to re-orientate public budget management and spending.

3. The public awareness for the necessity of sustainable development has risen in recent years. I admit, the awareness has not grown as fast as the requirements for action, but still they are in touch. Proofs are the rising interest in ESG disclosure, new emissions of sustainable investment products in the mainstream capital markets. Please allow me the notion to my German colleagues that there is still a lot to do and market opportunities to raise. The German SRI market is a relatively smaller niche

than other markets in Europe. I also see a comparable low number of signatories to the UN Principles for Responsible Investment, which I bemoan.

Nevertheless, the trend towards responsible investing is undeniable. Now is the time to get mainstream investors into action.

It´s time for ESG alignment.
It´s time for a global transparency framework.

The German Council for Sustainable Development raised a tool which has the potential to be a blueprint for a global transparency standard for sustainability: The German Sustainability Code. This Code describes in twenty criteria the core issues of sustainable management. With the help of a selection of key performance indicators it delivers reliable and comparable data for mainstream investors and the general public.

This transparency tool

- helps to assess investment risks and opportunities more effectively,
- delivers companies a selection of key performance indicators qualified for sustainability management and control.
- potentially lowers the efforts on entrepreneurial side to meet the different information requirements of various stakeholders.
- and helps to create a market that rewards sustainable action of companies.

To be honest: that´s the signal, companies long for: relevance of ESG on the capital market. I am just today very happy, that the Federal Government of Germany published its support for the GSC and appeals to all business to make use of the KSC.

The market demand for ESG is not yet strong enough. The more investors ask for information based on the German Sustainability Code, the more they setup their valuation process on information given in declarations of conformity, the broader the movement will be towards reliable and quantifiable disclosure. The clearer the core requirements for sustainability management, the more conspicuous the level playing field for future-oriented competition will be. We need investors and companies to move forward – for their economic success, but also to avoid regulation. It is common knowledge that trust lowers transaction costs. If we are honest, the business sector and financial market players have gambled away

trust in the last few years. With trustworthy transparency tools such as the Sustainability Code, trust into business action can be retrieved.

The favor I ask of the IIRC is, to support our aim to gain momentum and relevance for reliable and comparable ESG disclosure. Take the example of the Sustainability Code into account of your future discussions. I am convinced that a standardized minimum of requirements is absolutely necessary to raise relevance of ESG data for investors and to gain acceptance of companies towards ESG disclosure.

Let´s build tomorrow´s market today – in a common but differentiated responsibility!