

7 theses on the Sustainability Code

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Teaser: Experiences with the German Sustainability Code & Athens Outlook – why now is the right time to think about an international Sustainability Code, how the topics of sustainable finance and reporting fit together, and why this step would be so logical.

Thesis 1: There is no magic in reporting. The Sustainability Code is a simple, robust minimum standard and has established itself as such in the marketplace. It allows companies and organisations of all sizes and legal forms to disclose to a specific set of criteria relevant information in a level of application that is both appropriate and satisfies requirements. The “basic” Sustainability Code comprises 20 criteria in four areas and a selection of KPIs. Supplementary components are (1) legislation and (2) the National Action Plan on Business and Human Rights as a voluntary framework.

Thesis 2: Coherence is key. The Sustainability Code is the red carpet for all those who have not yet reflected their business case against the challenges of sustainable development. It is literally a recycling carpet made of fishing nets and plastic collected from the world’s seas. These fibres are:

- The ten principles of the Global Compact
- The CSR management guideline ISO 26.000
- The ILO core labour standards
- The OECD guidelines and Equator Principles

And we will further integrate the SDGs into the Sustainability Code in order to support companies in making their contributions visible – with sound efforts, in an efficient way.

Thesis 3: Voluntariness is great, but regulation is, well, not always better, but somehow necessary (apparently). Without an enhancing framework, the German Sustainability Code would not be at the point where it is now. A great deal of the Code uptake in 2018 was triggered by the CSR Directive Implementation Act.

Companies needed pragmatic assistance with their reporting. Around 530 enterprises in Germany are directly affected by the reporting obligation. 149 companies prepared a Code declaration for the 2017 reporting year in accordance with CSR-RUG (this is 28% of all directly affected companies); of these, 134 were in the sector “banks, insurance companies and financial service providers”. With an increase of 230 users, there was year-on-year growth of 93%. This is our opportunity and our challenge. We were given a lot to read and saw: there is still a lot to do.

Thesis 4: Freedom to define content kills the credibility star. We know and understand that the reputational risks associated with disclosing weak information compel each and every company to be honest. In practice, we see companies operating with two concepts of risks: the financial risks, developed over 100 years of financial reporting practice, and non-financial risks, which somehow still aren't becoming visible. We need to create coherence in company reporting, including in our definitions of risks and opportunities. We need to define what is material (and the RNE will be doing this in the upcoming months with our stakeholders) – this includes the terms and required quality of data in order to make the information disclosed relevant for market evaluation. And we need to articulate what we, the people, expect our companies to disclose. Reporting practice shows: the non-financial information disclosed by companies as their “contributions to society” mostly relates to philanthropy or sponsorship and is mostly not arranged in a strategic manner. “Contributions to society” relate to taxes, jobs and corporate structures. Companies are sustained by conditions they cannot create themselves. These are:

- an intact environment
- an intact society
- sustainable economies

And here we close the loop to the SDGs. They are our framework of values, which we should take into consideration if we want to soothe the upset.

Thesis 5: We need a systematic approach. We need to break up silo thinking. We need to combine our capabilities and make the best out of what we can do best. With the German Sustainability Code, we don't want to endanger business cases, but rather support those that are seriously taking sustainability into account.

We intend to bridge gaps: between sustainability and financial reporting, between CSR managers, IR, HR and top management, between companies and societies – and now we will be connecting with accounting firms and organisations in order to create simple solutions for companies, raise the credibility of information for third parties and thus the market relevance of the information provided in a Sustainability Code declaration.

Thesis 6: The Sustainability Code can be a game changer, if improved through national and international stakeholder dialogue. The German Sustainability Code was developed as a result of the impact left by the last financial and economic crisis – and the impression that no lessons were learned. Over the course of two years we pursued wide-ranging stakeholder dialogue with best-practice sustainability reporters and investors. We started in Germany with the idea of implementing the Code along global supply chains with the help of multinational companies applying it. This did not happen. What happened was: SMEs applied the Code and we started a partnership with QNF. What we learned was: trust the small, keep an eye on accounting and create momentum.

Thesis 7: What we need is reporting with the impulse future. After 25 years, the idea of the “triple bottom line” has become obsolete. The world’s extreme examples of profit maximisation are nuts. The growth on the pump and fake growth eats away at the premises of healthy entrepreneurship. These are fossil pension economies. Scarcity is no longer the paramount regulatory factor of the market economy for which it is still held. Scarcity alone no longer drives innovation. The true drivers are quite the opposite: the unlimited options of a sustainable market economy with unlimited growth for low-carbon, inclusive, open economies and societies. This brings us full circle – back to the SDGs.

Seven years after the adoption of the Sustainability Code, this learning journey is not over; rather, it is just beginning.

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