



Rat für
NACHHALTIGE
Entwicklung

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Sustainable Development

Statement on Sustainability Reporting as a Financial Driver of Transformation

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Sustainability reporting as a financial driver of transformation

As companies face increasing regulatory and market-driven demands with respect to their sustainability performance, a transparent sustainability reporting system would aim, among other things, to give shareholders greater control around sustainability and to improve the chances of sustainable investments and facilities. The change process towards sustainability goes hand in hand with time pressure, high investment needs and a whole host of risks, yet at the same time, future-proof positioning opens up a wealth of opportunities. As well as including sustainability aspects in the corporate governance and considering the enterprise value, transparent reporting by companies would launch an analysis and optimisation process for existing business models, through which the key levers for the necessary change could be identified and implemented. Approaches such as that of the Value Balancing Alliance lead the way here.

Proper, standardised reporting regulations enable high transparency and comparable assessment of contents. Indeed, international comparability of sustainability performance is needed to prevent distortions of competition and to elevate it, as intended, to the same level as financial reporting.

I. Harness Germany's G7 presidency and jointly set the course for a coherent global sustainability reporting system.

Germany's presidency of the G7 this year presents a unique opportunity to set the course for a coherent system of sustainability reporting at the global level and thus expedite the financing of the transformation. Germany can be a driving force within this framework and at the same time further the ambitions of the Coalition Agreement ("Germany as the leading sustainable finance centre"). In this context, entities such as the International Sustainability Standards Board (ISSB) of the IFRS Foundation will take on a major role.



II. Use creative leeway in EU processes and aim for an ambitious, internationally compatible sustainability reporting system.

The EU process for adopting a Corporate Sustainability Reporting Directive (CSRD) and development of the associated EU-wide standards by the European Financial Reporting Advisory Group (EFRAG) is taking place under immense time pressure. The EFRAG workstreams are expected to present tangible and officially agreed proposals for the sustainability reporting standards already by mid-2022. The German Council for Sustainable Development (RNE) believes that quality and international compatibility are more important than speed in the process. It is essential to foster coherence between EU-wide and international standards to ensure international comparability of reports and to avoid different, or even contrary, requirements of European versus internationally operating companies. Regulatory requirements must be sure to adequately cover global connectivity, for example in supply chains.

III. Position EU standards for sustainability reporting on an international baseline and avoid lock-in effects.

At international level, the G7 Impact Taskforce has already issued important recommendations on “Financing a better world requires impact transparency, integrity and harmonisation” and “Mobilising institutional capital towards the SDGs and a Just Transition”. One of the goals of the new International Sustainability Standards Board (ISSB) based in Frankfurt am Main is to develop a global “baseline” for sustainability reporting. From the RNE’s point of view, in the interests of a workable, impact-focused approach, the aim should be to promote an internationally recognised basic standard for sustainability reporting, which can then be supplemented as needed with further requirements for implementation of the European Green Deal and the EU regulations. The transformation towards greater sustainability calls for appropriate transition processes. New regulatory requirements must support such



transition scenarios and transformation processes and avoid so-called lock-in effects¹.

IV. Leverage established standards for sustainability reporting.

The planned EU standards should be ambitious and at the same time actionable – in other words, they should not disproportionately increase the complexity of the reporting – and they should allow a certain latitude for different stages of reorientation that companies find themselves in. Transition periods, such as in the transformation to climate neutrality, must be taken into account. Despite new reporting requirements, companies must be able to authentically demonstrate their current and future change processes, and the standards for this must be developed in conjunction with them. Established reporting standards such as the Global Reporting Initiative (GRI) at international level and the German Sustainability Code (DNK) at national level should be taken into account and allowed to be used for the reporting process, once adjusted to the applicable requirements. This would help keep the overhead for companies within acceptable limits and avoid a situation of parallel reporting on various platforms. Standardised KPIs along with coherence and usability of the data for different forms of report would help break down the barriers to access and ensure that the system is accepted and understood.

V. Compatibility for SMEs.

Small and medium-sized enterprises (SMEs) in particular face major challenges with regard to increasing transparency requirements on the part of client companies, the financial market and customers alike. Due to their position in value chains, SMEs are indirectly up against growing reporting obligations. But if the regulatory requirements are adjusted to their needs, they should be able to get on board. The proposed CSRD draft

¹ “Any long-term transformation is characterised by path dependencies. [...] This form of path dependency, also known as “carbon lock-in”, is based on the fact that physical, economic and social restrictions in complex systems mutually strengthen each other and limit changes (Seto et al., 2016). Therefore, a distinction can be made between infrastructural and technological, institutional, behavioural and other independent lock-in effects.” (GWS Research Report (2018, p.14ff.): *Mögliche Engpässe für die Energiewende [Possible Choke Points for the Energy Transition]*. Available at: https://www.bmwi.de/Redaktion/DE/Publikationen/Studien/moegliche-engpaesse-fuer-die-energiewende.pdf?__blob=publicationFile&v=8)



provides for the development of customised reporting standards for SMEs. With the DNK, the German government already offers a user-friendly standard for reporting, which is especially popular with SMEs. Good-practice approaches like the DNK should be factored into the development of SME-specific standards globally, but especially at EU level, and should remain available to support small and medium-sized enterprises in particular. As such, it must be ensured that these standards are compatible with the more comprehensive standards for large enterprises.

VI. Focus on the opportunities afforded by reporting and expand the quantitative and qualitative information available.

In the context of sustainability reporting, communication on the future regulatory requirements should be scaled up and provided in layman's terms to offer guidance for companies, clearly emphasise the benefits of reporting and, as such, remove the barriers to greater transparency. To make reporting comparable, quantitative information based on standardised methods of calculation is particularly effective. But external stakeholders, too, have to be able to use the information, and it can only be fully interpreted if quantitative data is embedded in a context of qualitative information.

VII. Pool perspectives in the Federal Government and introduce them at international and EU level.

For the Federal Government to effectively participate at EU level and in international negotiations, it needs to come from an officially agreed position. As things stand, EU regulatory processes with related content are handled by different departments (Federal Ministry of Justice: CSRD, Federal Ministry of Finance: Taxonomy). Combining the different technical expertise of the departments involved presents a major opportunity to implement impactful standards if they are introduced in a coordinated manner.



About the German Council for Sustainable Development

The German Council for Sustainable Development (RNE) advises the Federal Government on issues of sustainability policy. It acts in this capacity as an independent entity, and since 2001 its members have been appointed every three years by the Federal Government. The Council consists of 14 public figures, comprising individuals from civil society, the business sector, the scientific community and the political arena. It has been chaired since 2020 by Dr Werner Schnappauf and his deputy, Prof. Dr Imme Scholz. The Council also carries out its own projects aimed at advancing the topic of sustainability in practical terms. In addition, it helps shape topically focused momentum within policy and societal dialogue. The Council is supported in its activities by an administrative office based in Berlin.

Imprint

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