Gleiss Lutz

# THE ROLE OF SUSTAINABILITY IN CORPORATE GOVERNANCE AND REPORTING

Results of a Gleiss Lutz study

www.gleisslutz.com

## STUDY METHOD

Gleiss Lutz asked 200 companies in Germany to take part in an online survey entitled “The Role of Sustainability in Corporate Governance and Reporting”. The survey started in January 2024. The companies surveyed comprised 40 DAX-listed companies, 50 MDAX-listed companies and 110 other listed and non-listed companies.

Each company was asked to provide only one survey response, by one or more persons familiar with the subject. The online questionnaire was developed, distributed and evaluated by Gleiss Lutz. It had four parts and a total of 40 questions. Gleiss Lutz conducted the survey using standard survey software.

Participants were able to fill out the questionnaire anonymously, save it and forward it to colleagues to be completed. The response rate was 16%, with 32 questionnaires completed.

Individual respondents made themselves available for in-depth interviews that were conducted in February and March 2024 by video conference. Those interviewees’ statements have been included in various parts of this study in anonymised form.

We would like to thank the survey participants and interviewees for their valuable insights.

May 2024

# DEAR READER,

Firmly establishing ESG as a part of corporate governance and meeting the additional sustainability reporting requirements is challenging – both legally and organisationally. The regulatory environment is complex and evolving.

When advising our clients, we are increasingly asked how other companies approach these challenges: Is there a gold standard? What are the options? What makes the most legal sense, and what is the most practical?

That is what prompted Gleiss Lutz to survey a representative group of listed and non-listed companies on this issue with the aim of establishing more transparency. The results of the anonymous survey are summarised in this study.

We hope you enjoy reading the insights it contains and look forward to further discourse around these issues.

**Dr. Adrian Bingel**
Partner
Corporate

**Dr. Vera Rothenburg**
Partner
Corporate

**Teresa Link**
Lawyer
Corporate

# EXECUTIVE SUMMARY

## Current trends in corporate sustainability

**1** Environmental, social, and governance (ESG) issues are becoming increasingly important for listed and non-listed companies alike, particularly due to constantly intensifying regulatory requirements. That is also reflected by the seriousness with which ESG issues are taken at board meetings: Our survey shows that ESG issues are now of elevated importance and will continue to increase in importance in the medium term. Supervisory boards are also more and more concerned with sustainability issues alongside their advisory and supervisory functions.

**2** While there is often discussion about establishing sustainability committees within supervisory boards, few of the companies surveyed have done so. Sustainability is increasingly considered a task of the board as a whole; ESG tasks and expertise are distributed across existing committees. Where a sustainability committee has been established, cooperation with other committees and the plenary board is good to very good.

**3** According to our survey, supervisory board members mainly acquire sustainability expertise through ESG training. Audit committee members draw their ESG expertise primarily from experience gained from other (prior) corporate body engagements, and from their work on the audit committee. According to German Corporate Governance Code recommendation C.1, listed companies should also disclose sustainability expertise in their skills and expertise profile. Although there is no such recommendation for non-listed companies, most of the non-listed companies surveyed have also prepared skills and expertise profiles that include sustainability issues.

**4** Employees below board level are also taking responsibility for sustainability issues at a growing rate. The majority of companies surveyed have their own ESG department. Other employees are mainly involved on a cross-departmental basis, as employees can make suggestions for sustainability topics. It is also very common for employees to receive ESG training. Further, more than two thirds of companies surveyed have their employees sensitised to ESG issues by management.

5 Alongside the ESG work they do internally at the level of corporate bodies and employees, companies also require external ESG advice. According to our survey, there is a particular need for external assistance with the interpretation and the legally compliant implementation of regulatory requirements. Only rarely do companies set up sustainability advisory boards comprising external experts, and that is likely to remain so in the future. With respect to the CSRD, companies responded that they need the most advice on how to interpret ESRS standards and how to collect information.

6 All 40 DAX companies take sustainability targets into account in their internal control and risk management systems (ICS and RMS) and in their corporate planning in accordance with German Corporate Governance Code recommendations A.1 and A.3. While the non-listed companies surveyed do include sustainability targets in their ICS and RMS, sustainability targets play a much less significant role in their corporate planning. Most companies surveyed said that the CSRD compelled them to improve existing reporting systems and even implement new systems.

7 The CSRD is setting new standards in sustainability reporting. To meet its requirements, most companies have established dedicated sustainability reporting departments. Finance departments also assist in many cases, for example by providing expertise and data collection structures. Legal departments often only play a minor role in CSRD reporting, and are usually only called in to assist with the interpretation of specific requirements or help with drafting.

8 There is a certain range in management board members' knowledge of CSRD topics: While non-listed companies consider their knowledge to be either somewhat insufficient or very good, responses from listed companies tend to fall midrange. Their general willingness to train management board members on CSRD issues is correspondingly high. The companies surveyed believe that their supervisory board members have a level of CSRD knowledge appropriate to the performance of supervisory duties.

*ESG issues are part of the work of management boards[1], supervisory bodies, and regular employees. However, they present challenges at every level – including some for which there are no established, identifiable best practices to address them. This Gleiss Lutz study aims to shed light on what challenges ESG presents for corporate governance, how sustainability issues are becoming an integral part of corporate organisations, what sustainability work is done at corporate body and employee level, and what the relevant issues are in respect of the Corporate Sustainability Reporting Directive (CSRD). This study also attempts to provide an overview of these issues that is useful to both listed and non-listed companies.*

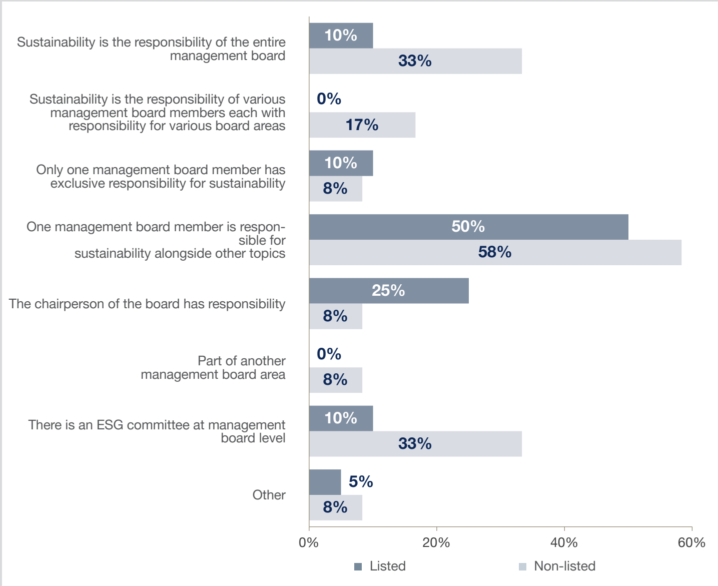
## Management board's sustainability expertise

Given increasing legal requirements such as the enshrining of sustainability in the German Corporate Governance Code and the imminent transposition of the CSRD in European Union member states, management boards need to adapt their organisation to meet the new challenges – both strategically and operationally. Companies are asking themselves where at board level to best place sustainability.

Our survey shows that there is usually one management board member who has responsibility for sustainability alongside their other areas of responsibility; at listed companies, that person is often the chairperson of the management board themselves. Companies rarely give a board member responsibility for just sustainability. Some companies – mostly non-listed – have established a separate ESG committee that usually shares responsibility with a designated board member or the management board as a whole.

[1]In this study, the term "management board" refers to the executive bodies of both German stock corporations (Aktiengesellschaft) and undertakings with other legal forms.

*"Who on the management board is responsible for the topic of 'sustainability'?"*

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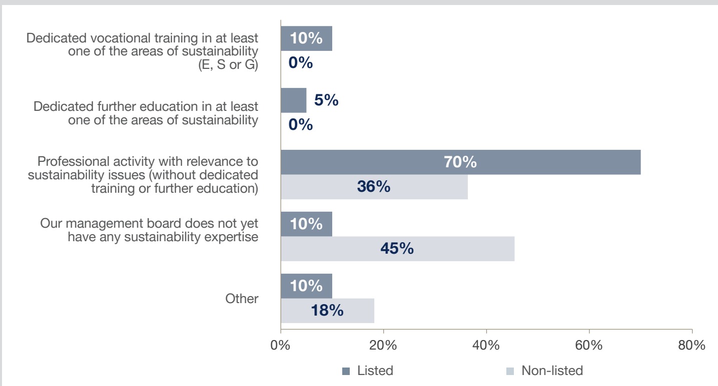
*"What sustainability expertise requirements do you have of management board members?"*

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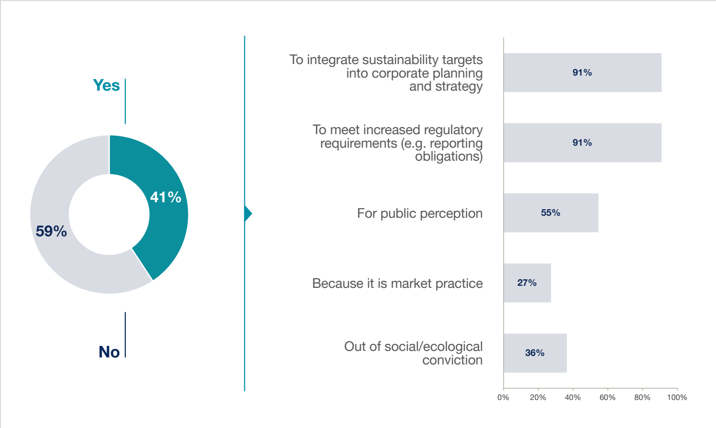
Our results emphasise that sustainability has long played a significant role for the management board at most of the companies surveyed. A slight majority see no need to expand sustainability expertise on the management board. Where they do plan to expand that expertise, it will primarily be to integrate sustainability targets into corporate planning and strategy and meet increased regulatory requirements.

*“Do you plan to expand your management board’s sustainability expertise in the next two financial years? If so, for what reasons?“*

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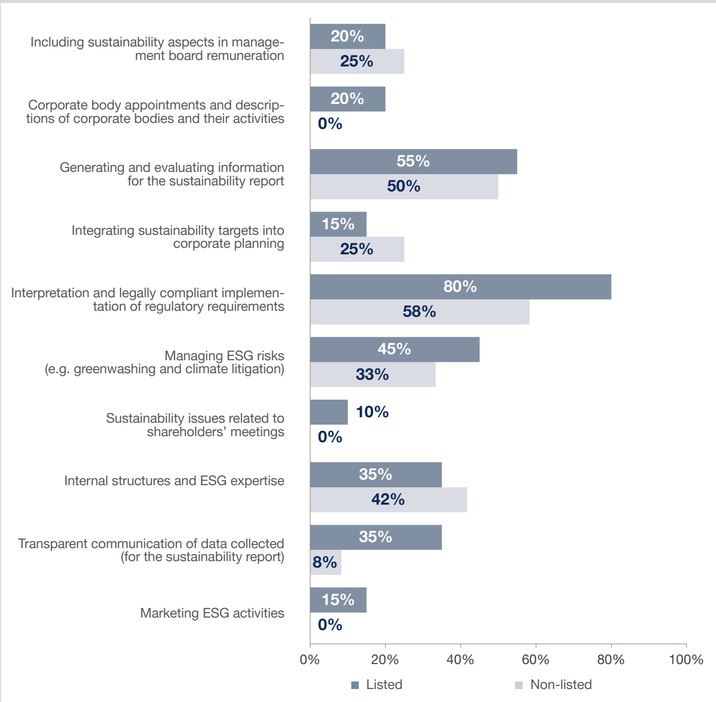
## External advice needed on sustainability issues

Media coverage and increasing climate litigation are creating a need for external advice on sustainability issues. In a growing number of cases, climate activists and environmental organisations are bringing lawsuits not only against governments, but against individual companies too. In 2021, Shell became the first company ever to be ordered to meet climate targets following a court ruling in the Netherlands. This development, combined with increasing legal requirements, is raising pressure on companies. It is therefore no surprise that the companies surveyed see their greatest need for advice in managing ESG risks.

However, the individual responses reveal differences between listed and non-listed companies: It is apparent that only listed companies see the need to obtain external advice on making appointments to corporate bodies and preparing descriptions of those bodies and their activities, for example the report of the supervisory board and corporate governance declaration. That is likely attributable to the extensive reporting requirements of listed companies. That both listed and especially non-listed companies have an above-average need for advice on the interpretation and legally compliant implementation of regulatory requirements, however, underpins the criticism from some quarters of the jumble of different standards and tightening regulation around the issue of sustainability.

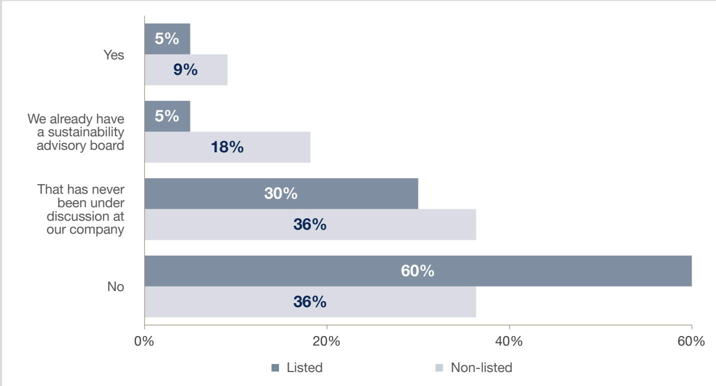
*“Where do you see the greatest need for external advice on sustainability issues in future?”*




Figures rounded. Multiple responses permitted.

The increasing regulation is one of the reasons that academics and practitioners alike increasingly favour sustainability advisory boards comprising external experts. Sustainability advisory boards can be tasked with presenting sustainability strategy suggestions to the management board and assisting the transformation towards sustainable business based on the latest findings. Few of the companies we surveyed plan to establish such an advisory board in the next two financial years; longer term, only one in seven of the companies surveyed has plans to introduce such an advisory board. In practice, there is significant variance among companies that have established a sustainability advisory board with respect to their powers. Some advisory boards have their own information, consultation and initiative right; others are limited to an advisory role; others again investigate the company's progress on sustainability independently. The advisory boards comprise experts from academia, government and business.

*"Do you plan to set up a sustainability advisory board of external experts to advise the management board in the near future?"*




Figures rounded. Multiple responses permitted.

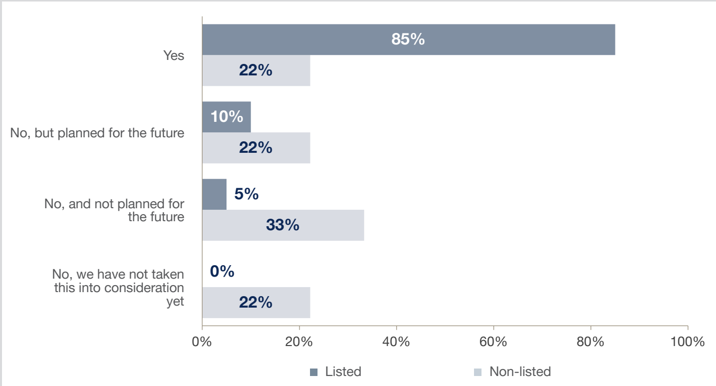
# Relevance of sustainability in remuneration – management and employees

Since 1 January 2020, listed companies in Germany have been obliged to gear their remuneration structure towards the company's "sustainable and long-term" development. The legal basis for that obligation is section 87(1), sentence 2 Stock Corporation Act (Aktiengesetz, AktG), which was amended by the Act Implementing the Second Shareholders' Rights Directive ("ARUG II"). One way of meeting these requirements widely used in practice is the integration of ESG targets into variable remuneration. Companies can select targets from the areas of environment (e.g. climate, resource consumption, biodiversity conservation), social (customer and employee satisfaction, diversity, health and safety at work) and governance (e.g. compliance). German Corporate Governance Code recommendation G.1 also recommends taking non-financial performance criteria into account when granting variable remuneration components.

Our survey shows that listed companies place greater emphasis on sustainability aspects in their management board members' remuneration than non-listed companies. That is likely due to the fact that the requirements of section 87(1), sentence 2 AktG and German Corporate Governance Code recommendation G.1 apply once a company is listed. This discrepancy between listed and non-listed companies is unlikely to change in the foreseeable future, given the rather critical stance held by the non-listed companies surveyed towards the future integration of sustainability aspects into the variable components of management board remuneration.

Listed and non-listed companies have a more uniform view of attaching sustainability considerations to the remuneration of employees below board level: A majority of companies surveyed see little benefit to this option at present or in the future – the non-listed companies even less so than the listed companies. There are currently no statutory regulations or recommendations for including sustainability aspects in remuneration below management board level, which may explain the rather low significance it holds for listed and non-listed companies alike.

*"Do ESG issues already play a role in variable management board remuneration?"*

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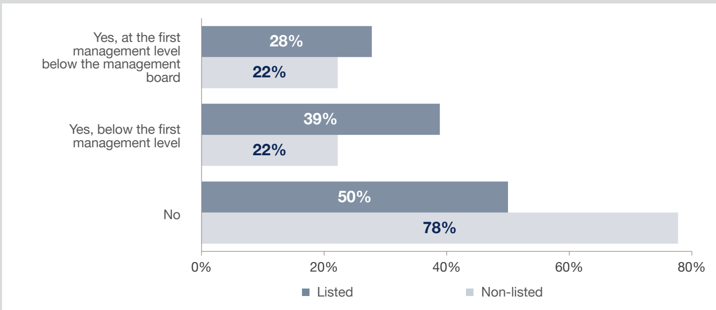
*"Does sustainability have any relevance to remuneration below management board level?"*

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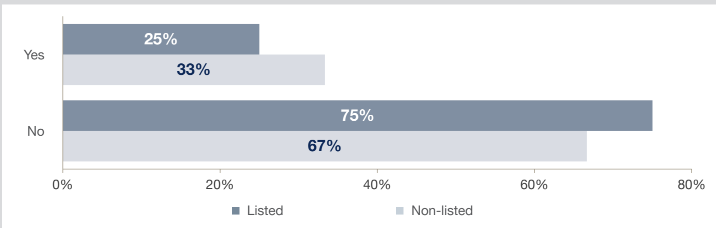
*"If not, do you plan to consider sustainability with respect to remuneration below management board level in the future?"*

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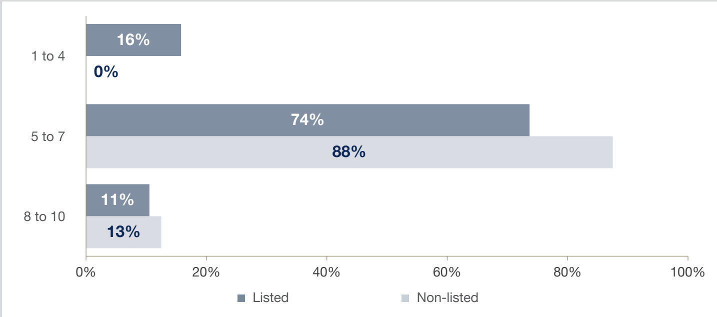
## Relevance of ESG issues at management board and supervisory board level

Sustainability is a topic caught between the demands of legislation, public opinion and commercial success – and that is one of the reasons that sustainability issues are gaining importance for all corporate bodies. Specific questions about ESG issues are increasingly being asked at shareholders' meetings, and discussions about Say on Climate resolutions are becoming more and more common. Our study includes analysis of the relevance of sustainability issues at management board and supervisory board level:

The companies surveyed describe the role of ESG issues in board meetings as being of above-average relevance. ESG issues were often a subject of particular focus – for example, with their own agenda item – at board meetings in the past financial year. Unlike listed companies, non-listed companies plan to place even greater focus on this issues at management board meetings in future.

The fact that supervisory and advisory tasks relating to sustainability play a more important role on the supervisory board than for the management board is likely due to the concentration of supervisory board tasks into fewer meeting days and to the variety of topics that the management board has to deal with when managing a company.

*"What role did ESG issues play in management board meetings in the last financial year?"*

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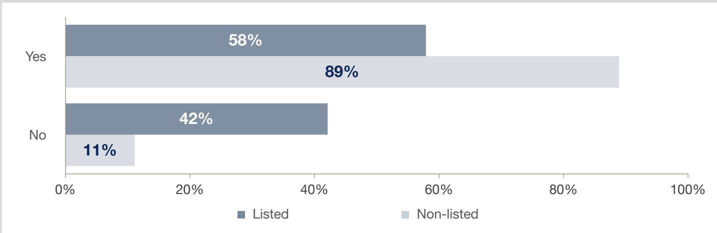
*"Do you plan to give greater consideration to ESG topics at future meetings?"*

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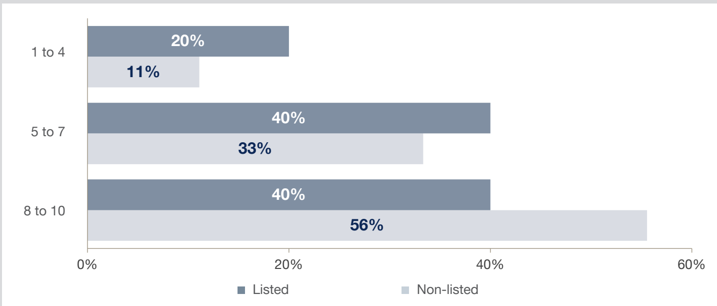
*"To what extent do the supervisory board's supervisory and advisory duties concern or focus on sustainability issues?"*

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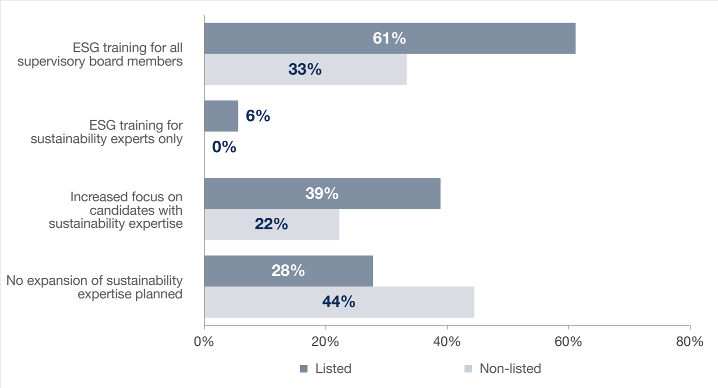
## How does the supervisory board acquire sustainability expertise?

The law does not yet require that supervisory board members have specific ESG expertise – unlike the accounting expertise required of supervisory board members at stock corporations under section 100(5) AktG. For listed companies, German Corporate Governance Code recommendation C.1 recommends that the supervisory board's skills and expertise profile "also comprise expertise regarding sustainability issues relevant to the enterprise". Changing market practice, investor demands, and CSRD implementation requirements, however, make a certain level of sustainability expertise appear essential for the supervisory boards of all companies – even outside the relevant committees. That means the supervisory bodies of non-listed companies increasingly need to ensure that sustainability expertise is distributed across the body as a whole.

The question of how to ensure sustainability expertise across the entire supervisory board is therefore crucial. The most common means of expanding that expertise among the companies we surveyed is providing ESG training for all supervisory board members. In the interviews we conducted, interviewees responded that this training was often designed and executed internally, but sometimes externally supported. We have also seen that candidates with ESG expertise are frequently proposed for the supervisory boards. It emerged during the interviews that companies definitely notice competition in their search for suitable candidates. Unsurprisingly, only around a third of the companies surveyed – primarily non-listed companies – have no plans to expand their sustainability expertise.

Supervisory board audit committees have particular involvement with sustainability. Since the amendment to German Corporate Governance Code recommendation D.3, audit committees have been responsible for auditing sustainability reports, at least at listed companies. Our study shows that the expertise in sustainability reporting required to do this is usually acquired through relevant practical experience and through multiple years of involvement in sustainability reporting on audit committees.

*"How does the supervisory board as a whole acquire sustainability expertise (in the long term)?"*

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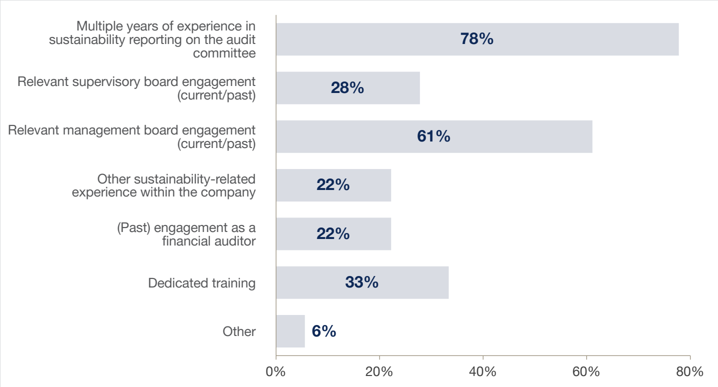
*"Where do the experts on the audit committee get their expertise in sustainability reporting?"*




Only listed companies were asked this question. Figures rounded. Multiple responses permitted.

## Supervisory board skills and expertise profile

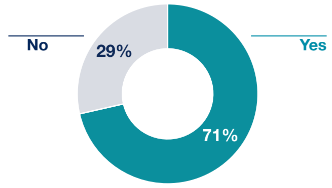
German Corporate Governance Code recommendation C.1 recommends creating a profile of skills and expertise for the supervisory boards of listed companies, including expertise on sustainability issues relevant to the enterprise.

Publicly available sources show that all of the DAX-listed companies have followed this recommendation, although they often only cite the general term "sustainability" as expertise. Our study shows that in the 2023 financial year, most companies did not differentiate between environmental, social and governance in their supervisory board's qualification matrix. However, some companies are considering changing that. In an in-depth interview with one company, its representative cited the complexity of the individual topics as a reason to differentiate. According to the company, it is difficult to display in-depth knowledge in all areas, which is why sustainability expertise should be differentiated in future.

Of the non-listed companies surveyed, around 71% have a skills and expertise profile for their supervisory board. As the German Corporate Governance Code only serves as non-binding guidance for non-listed companies, it is remarkable that 60% of these skills and expertise profiles already cover sustainability aspects.

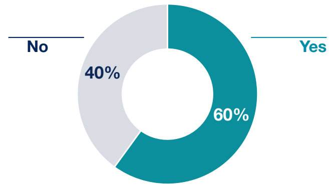
The German Corporate Governance Code does not specify how the skills and expertise profile has to be structured, although the Government Commission had already provided for this in previous amendments to the Code – for example in the templates for the 2017 remuneration tables. Listed companies therefore have room for manoeuvre in this respect, which could also give rise to the desire for a model table. However, a slight majority of the participating listed companies have no such desire. Some companies interviewed said that a model table would have saved lengthy discussions, and thus working time, and would therefore have been desirable – also as a means of improving comparability for investors. Others saw no need for standardisation and preferred to have flexibility.

*"Does your supervisory board have a skills and expertise profile?"*



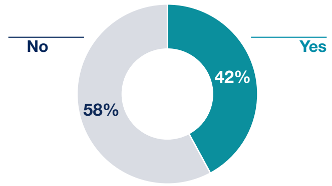

Only non-listed companies were asked this question. Figures rounded.

*"If it does have a skills and expertise profile, does that profile cover sustainability aspects?"*




Only non-listed companies were asked this question. Figures rounded.

*"Would you like to see the Government Commission provide a model table so that the supervisory board's expertise can be described in a standardised, comparable way?"*




Only listed companies were asked this question. Figures rounded.

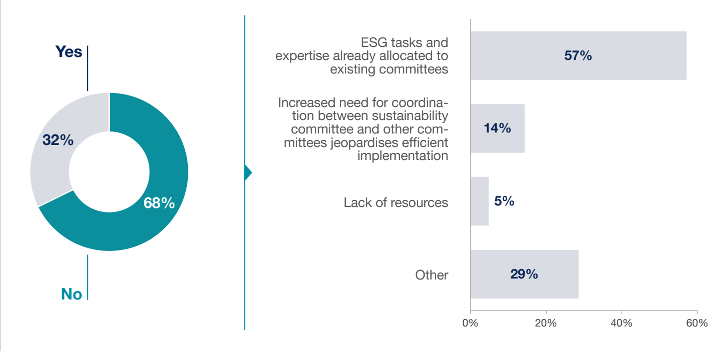
## Supervisory board sustainability committee

Setting up a sustainability committee may be a good way of more effectively addressing the increasing number of sustainability-related supervisory board tasks. Even though there is no legal obligation to set up such a committee, nor any requirement under the German Corporate Governance Code to do so, it is a recurring topic of discussion in supervisory boards practice.

The responses of the companies surveyed are somewhat conservative in this regard: A majority of around 68 % responded that their supervisory board did not have a sustainability committee, with an overwhelming 95 % of these respondents also indicating that they had no plans to set up such a committee in the next two financial years, either. The main reason for this is that ESG tasks and expertise are already allocated to the existing committees in the companies surveyed and sustainability is seen more as the responsibility of the board as a whole. One DAX corporation, for example, said during an in-depth interview that ESG is too diverse a topic with too broad an impact on all business areas to be delegated to a separate committee. From a practical point of view, companies also frequently voiced the concern that a sustainability committee could create inefficiencies, leading to less attention being paid to sustainability.

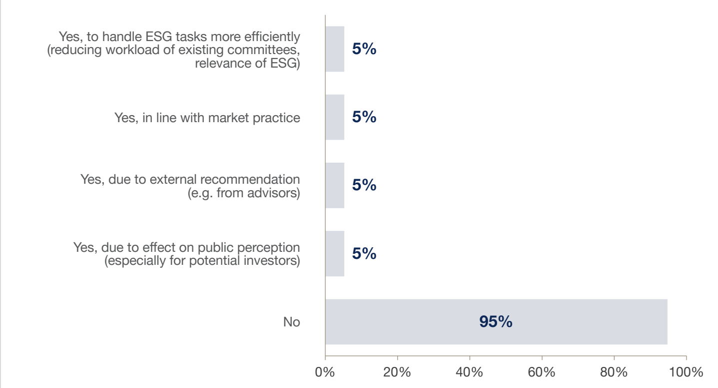
While the trend in market practice depicted here may be clear, coordination with other committees and the plenary board nevertheless works well for the respondents whose companies have a sustainability committee. Contrary to the concerns mentioned above, none of the companies with a sustainability committee experience any redundancies or inefficiencies.

*"Does your supervisory board have a sustainability committee? If not, for what reasons?"*




Figures rounded. Multiple responses permitted.

*"If your supervisory board does not have a sustainability committee, do you have any plans to set up such a committee in the next two financial years? If so, for what reasons?"*

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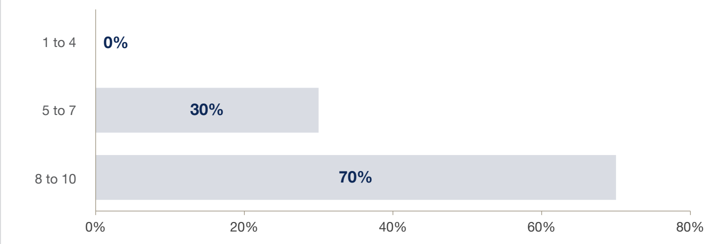
*"If your supervisory board has a sustainability committee, how good is coordination with other committees and the plenary board?"*



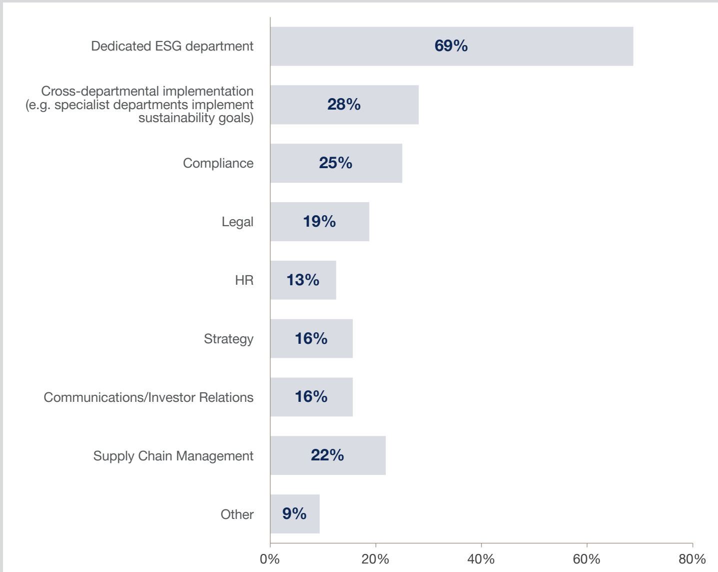

Figures rounded. Scale from 1 (not so good) to 10 (very good).

## Responsibility for sustainability issues at employee level

Responsibility for dealing with sustainability issues is not limited to management and supervisory boards – it plays an important role below board level, too. We asked the companies surveyed who was responsible for sustainability issues below management board level, with a dedicated ESG department being most frequently cited by listed and non-listed companies alike. So while companies tend not to bundle these issues in the hands of a committee at supervisory board level, they often ensure focused handling at employee level by way of a dedicated ESG department.

Survey respondents also said that they involve their employees primarily via voluntary training and take employees' suggestions on sustainability issues into account. More than two thirds find it important for management to raise employees' awareness of ESG issues. Adhering to ESG standards is accordingly an important component of a good compliance system (tone from the top).

*"Who is responsible for sustainability issues at your company below management board level?"*

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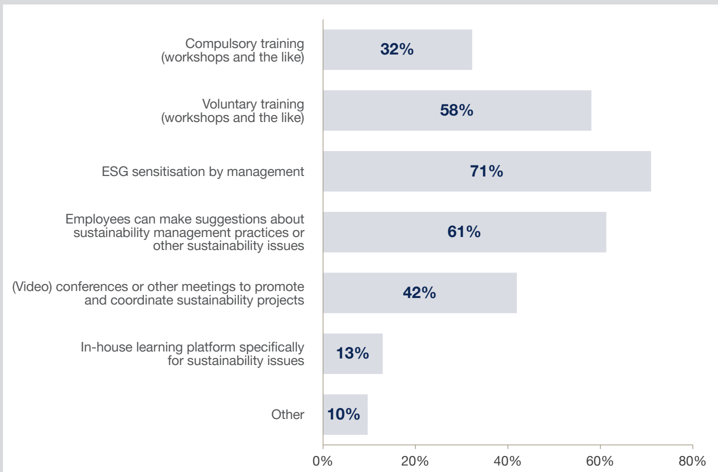
*"How do you generally involve your employees in sustainability issues, also with a view to achieving sustainability goals?"*

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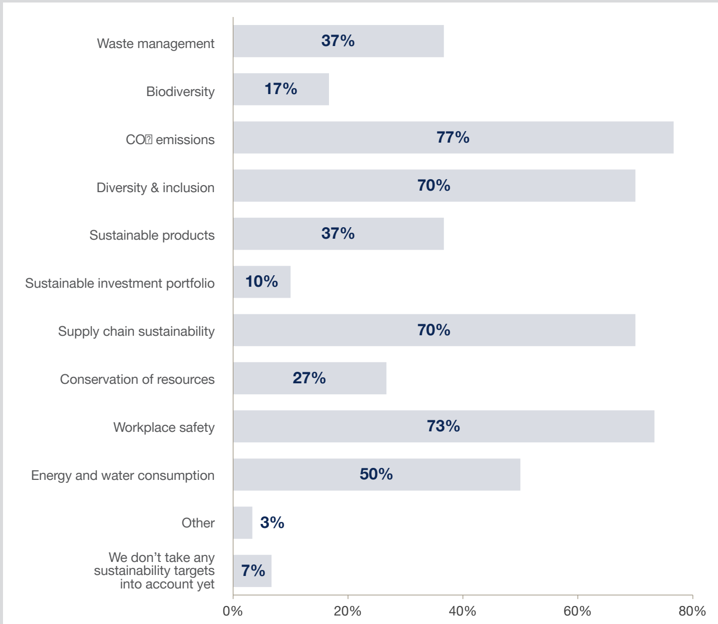
# Internal control and risk management system: Sustainability targets and adjustments made necessary by the CSRD

Under section 91(3) AktG, the management board of a listed company must establish a suitable and effective internal control and risk management system. There is no explicit legal obligation for either listed or non-listed companies to take sustainability aspects into account in these corporate governance systems. However, according to German Corporate Governance Code recommendation A.3, listed companies should include sustainability targets in the internal control and risk management system. At the end of 2023, all 40 of the DAX-listed companies had followed this recommendation. Despite the lack of similar rules for non-listed companies, the results of this study suggest that sustainability targets also play an important role in the internal control and risk management systems of such companies: For example, around 92% of non-listed companies take sustainability targets into account in the relevant systems. The most common sustainability targets among the companies surveyed – regardless of industry and stock market listing – were diversity and inclusion, CO2 emissions, workplace safety, and supply chain sustainability; companies chose these targets because they considered them to be the most relevant.

The far-reaching impact of CSRD on businesses and the fact that entirely new structures are required in some cases is demonstrated by the approximately 82% of companies wanting to improve their existing reporting systems to achieve compliance with the CSRD. About one in three companies surveyed is even planning to establish new reporting systems to meet the heightened reporting obligations. The noticeable disparity between listed and non-listed companies can be explained by the fact that many non-listed companies that were previously not required to report on sustainability are now required to do so by the CSRD.

*"What sustainability targets do your internal control system and risk management system take into consideration?"*

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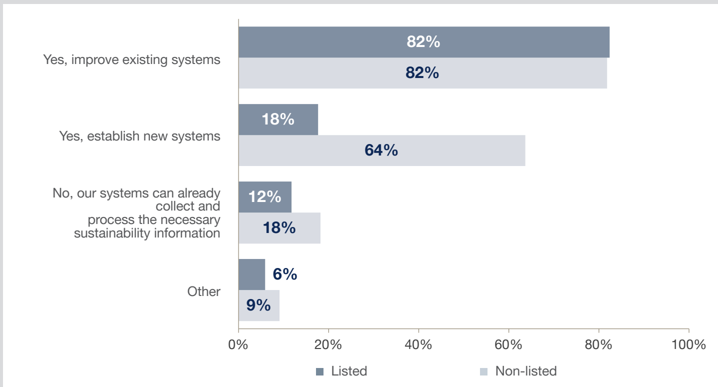
*"Do you plan to modify your internal reporting systems to achieve compliance with the CSRD's expanded reporting obligations?"*




Figures rounded. Multiple responses permitted.

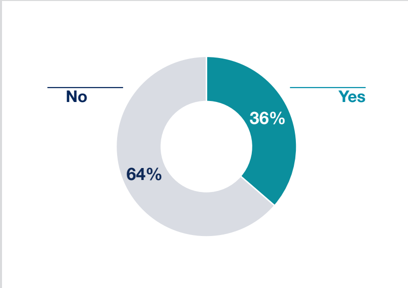
## Sustainability targets in corporate planning

Balancing economic growth with social and ecological considerations presents a challenge for many companies. Companies of all sizes also face increased regulatory and social requirements. The German Corporate Governance Code places additional requirements on listed companies, including that corporate planning must also include sustainability targets (recommendation A.1). In addition, their corporate strategy must also give appropriate consideration to ecological and social targets.

According to their 2023 declarations of compliance, all 40 of the DAX-listed companies followed this recommendation. As the results of the survey show, the situation is different for non-listed companies: Only around a third have already incorporated sustainability targets into their corporate planning – modelled, for example, on the UN Sustainable Development Goals or the Paris Agreement on climate change. For all of these companies, the primary motivation is their own conviction to contribute more significantly to sustainability. The interviews revealed that social and ecological values are often very important, particularly in family businesses. Preparing for CSRD reporting obligations or other regulatory requirements are other key reasons cited. At the same time, only a third of non-listed companies that do not currently include sustainability targets in their corporate planning intend to do so within the next two financial years.

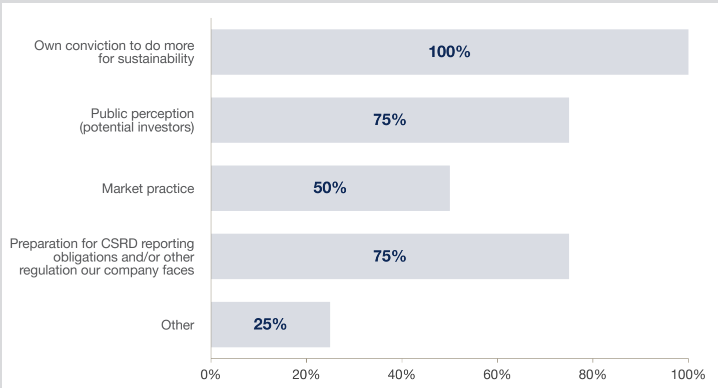
The clear divergence between listed and non-listed companies could be attributable not only to German Corporate Governance Code recommendation A.1, but also to the growing expectations from shareholders to integrate sustainability into corporate planning – factors that simply play a greater role for listed companies. It remains to be seen whether the CSRD or other legislative initiatives, such as the Corporate Sustainability Due Diligence Directive (CS3D), will change the way sustainability targets are taken into account in the corporate planning of non-listed companies in the long or short term. In any case, it is already apparent that the Corporate Sustainability Reporting Directive will lead to substantial changes for listed and non-listed companies alike.

*"Do you take sustainability targets into account in your corporate planning?"*




Only non-listed companies were asked this question. Figures rounded.

*"For what reason does your corporate planning contain sustainability targets?"*




Only non-listed companies were asked this question.
Multiple responses permitted.

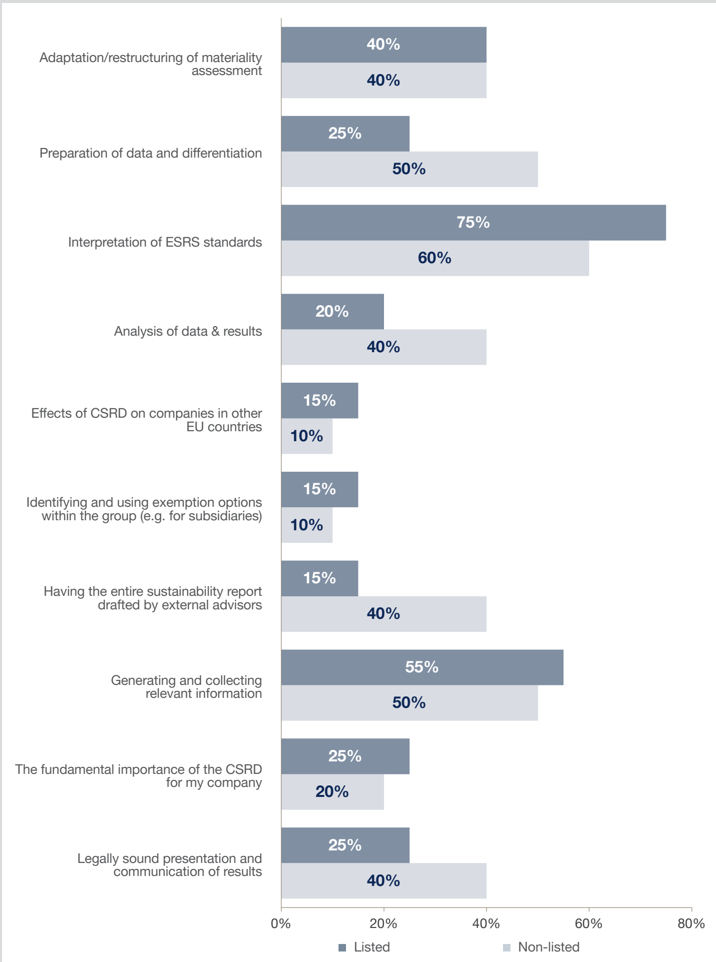
# SUSTAINABILITY REPORTING (CSRD)

*The new EU Corporate Sustainability Reporting Directive (CSRD) came into force on 5 January 2023. Member States have until 6 July 2024 to transpose the new regulations into national law, although Germany is likely to miss this deadline. Nonetheless, the CSRD is already a key concern for the companies affected by it – as was apparent from the discussions about appointing sustainability auditors during the past few months of the 2024 AGM season. The number of companies in the EU required to prepare sustainability reports will increase from currently around 11,600 to just under 50,000. In addition, there are substantial changes to the reporting requirements, with binding European Sustainability Reporting Standards (ESRS) harmonising the content and form of sustainability reports. The CSRD has also introduced a mandatory external audit of sustainability reporting. In the absence of an accepted market practice, our survey aimed to provide an initial overview of how companies are dealing with the CSRD.*

## External advice needed on sustainability reporting under the CSRD

In particular, the bureaucracy that a large number of companies are facing (for the first time) because of the CSRD are being criticised by the public and by associations. But there are also other reasons why there is still a substantial need for advice on sustainability reporting under the CSRD. Our findings show that interpreting the ESRS is likely to play a major role, as almost 70% of the companies surveyed see a substantial need for external advice in this regard. Around half of the respondents also believe that companies need advice on generating and collecting relevant information. It remains to be seen whether the findings discussed in this section can be explained solely by the fact that companies have to meet sustainability reporting requirements for the first time. The same applies to the fact that in particular the non-listed companies we surveyed responded that they see a greater need for assistance from external advisors in analysing data and results for the sustainability report and drafting the report as a whole.

*"For which of the following topics do you see the greatest need for external advice in connection with sustainability reporting (under the CSRD)?"*



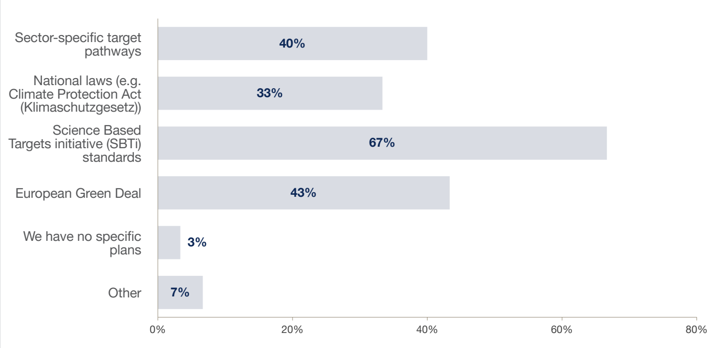

Figures rounded. Multiple responses permitted.

## Compatibility of business model with the goals of the Paris Agreement on climate change

The Paris Agreement on climate change came into force on 4 November 2016. It provides a universally applicable and comprehensive climate change framework that lays down obligations for all 180 of the ratifying states, including Germany and the European Union. The Agreement aims to limit the rise in the global average temperature, reduce emissions, strengthen efforts to adapt to climate change and make finance flows consistent with climate protection targets. Article 19a(2), letter (a), no. (iii) of the Accounting Directive as amended by the CSRD requires reporting companies to provide information on *"the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement".*

Around two-thirds of the companies in our survey – across all sectors and regardless of whether they are listed or not – use the standards of the Science Based Targets initiative (SBTi) to ensure that their business model is compatible with the goals of the Paris Agreement. These are the leading market standards by far, as can also be seen from the SBTi database, which lists over 4,900 companies worldwide with validated science-based climate targets. In many cases, the companies surveyed also base their approach on sector-specific target pathways or the European Green Deal.

***"What do you use, or are likely to use, as a basis for ensuring that your company's business model is compatible with the goals of the Paris Agreement on climate change?"***



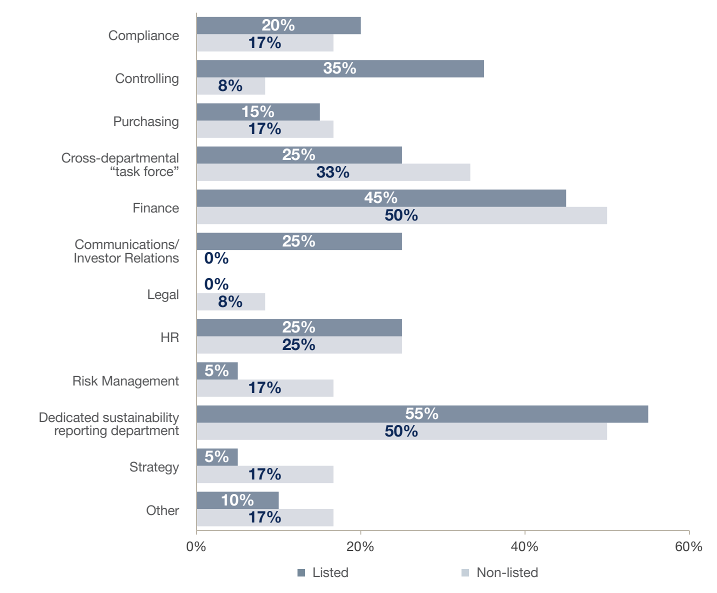

Figures rounded. Multiple responses permitted.

## Data collection responsibility and FTEs

When collecting the relevant data for sustainability reporting, companies need to decide which department(s) are best suited to the task. According to our survey, dedicated sustainability reporting departments and finance departments are most frequently responsible for data collection. Finance departments were described in interviews as particularly suitable, since they already have experience in setting and monitoring KPIs for other purposes, primarily financial reporting.

Regardless of which department is responsible, the companies surveyed seldom have more than five people involved in sustainability reporting. The non-listed companies in our survey, in particular, are keen to change this in future. This could be explained by the fact that these companies are being required to file sustainability reports for the first time under the CSRD. For the most part, however, non-listed companies have not yet addressed the issue of additional personnel requirements.

*Who in your company is currently or will in future be responsible for collecting data for sustainability reporting?*

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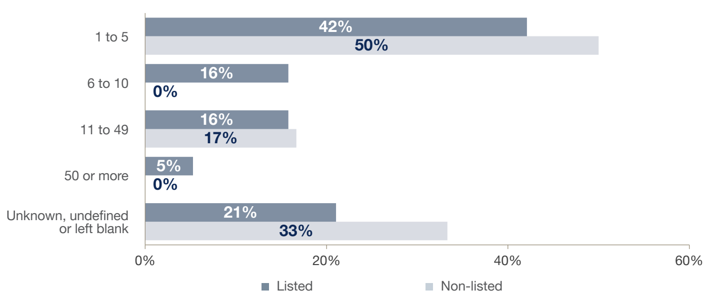
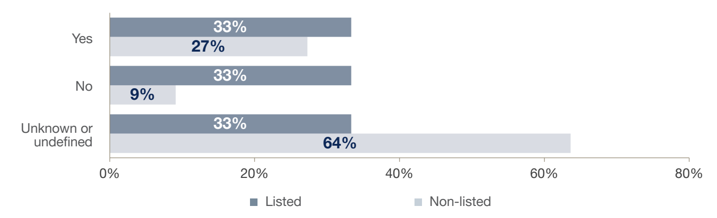
*How many FTEs are currently involved in sustainability reporting in your company?*




Figures rounded.

*Are you planning to increase the number of FTEs in future?*



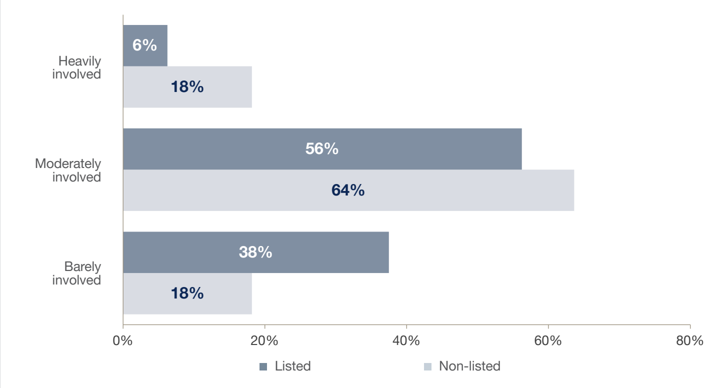

Figures rounded.

## Role of legal departments in sustainability reporting

In many cases, the legal departments of both the listed and non-listed companies surveyed play only a subordinate role in sustainability reporting. Around half of the companies stated that their legal department was only moderately involved in sustainability reporting. According to the interviews we conducted, the legal department is often called in to interpret specific requirements or to help with drafting, and is only rarely involved in the actual collection of data.

Our survey showed that one of the reasons for this rather sporadic involvement is that the employees in the specialist departments have the necessary expertise and therefore take the lead in the reporting. Specialist departments are likely to be more prolific at listed companies, which could explain why a relatively large percentage of listed companies indicated that their legal departments were "barely involved". In line with this, most of the companies surveyed do not want their legal departments to be more involved in the future, meaning there is no need to increase the number of staff in these departments in view of the requirements of the CSRD.

*To what extent is your legal department involved in sustainability reporting?*

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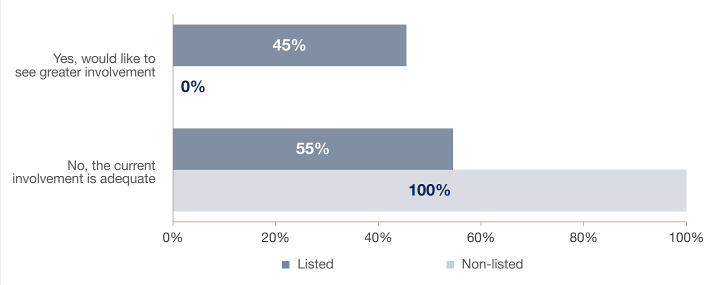
*Would you like to see greater involvement/do you consider this to be advantageous?*

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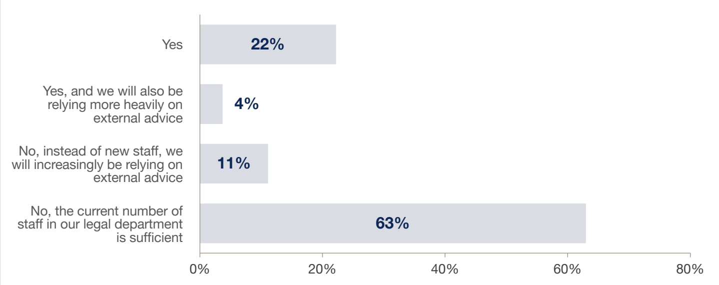
*Do you see a need to increase the number of staff in your legal department in future (with respect to the CSRD)?*




Figures rounded.

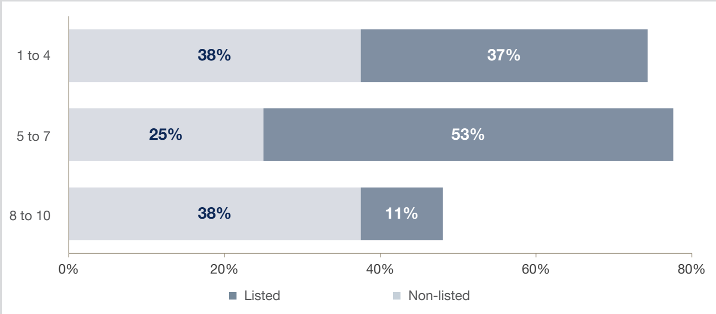
# SUSTAINABILITY REPORTING (CSRD)

## Boards' expertise in sustainability reporting under the CSRD

The new challenges posed by the CSRD naturally affect employees and board members alike. The listed and non-listed companies surveyed differed noticeably in their assessment of management board members' current knowledge of sustainability reporting. Most non-listed companies responded that their management board members either had below-average knowledge or very good knowledge, whereas listed companies generally assessed their management board members as having sufficient knowledge. The majority of companies surveyed – whether listed or not – stated that their supervisory board members had above-average knowledge of sustainability reporting. It is interesting to note that, at non-listed companies, the supervisory board is disproportionately often credited with having good to excellent knowledge in this regard.

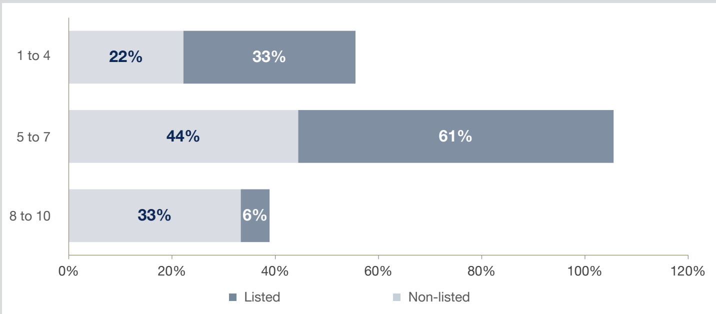
In addition, we asked the companies if they had any plans to train management and/or supervisory board members on sustainability reporting under the CSRD. Half of the respondents stated that they want to provide further training to all management board members. That proportion is slightly less when it comes to the training of supervisory board members; however, they were deemed to have greater knowledge of sustainability reporting. Where companies plan to offer training, this is in most cases to be aimed at all members of the management or supervisory board, regardless of whether they are tasked with sustainability issues. This result demonstrates once again that sustainability is seen as a task for the board as a whole, whether at management or supervisory board level.

*"How would you assess your management board members' current knowledge of sustainability reporting under the CSRD (e.g. in connection with liability issues)?"*



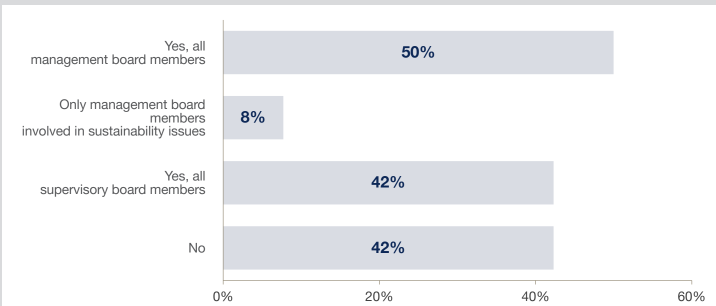

Figures rounded. Scale from 1 (insufficient) to 10 (very good).

*"How would you assess your supervisory board members' current knowledge of sustainability reporting under the CSRD (e.g. in connection with liability issues)?"*




Figures rounded. Scale from 1 (insufficient) to 10 (very good).

*"Do you have any plans to train management and/or supervisory board members on sustainability reporting under the CSRD (e.g. also on the risk of lawsuits and liability risks)?"*




Figures rounded. Multiple responses permitted.

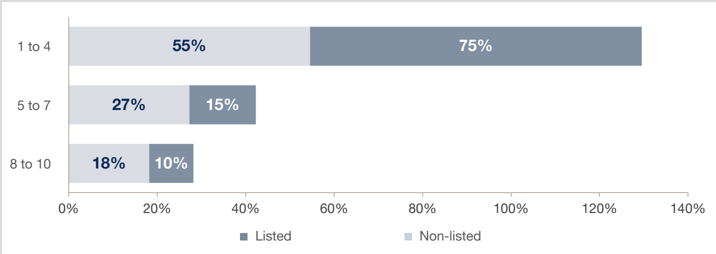
## Sustainability in (international) corporate groups – localisation and process

Sustainability issues often present particular challenges for international corporate groups, especially because they have to implement policies uniformly across different sites. The majority of the companies surveyed indicated that they deal with sustainability issues centrally. The interviews reveal that different approaches are necessary depending on the corporate structure and focus area, and it often comes down to the specifics of the situation. It emerged that companies often establish overarching central structures and guidelines, but the actual implementation is decentralised to fit in with the local circumstances.

Most of the companies surveyed ensure that the various sustainability concepts are understood consistently across the group through regular communication with (foreign) group companies and by way of internal guidelines and policies.

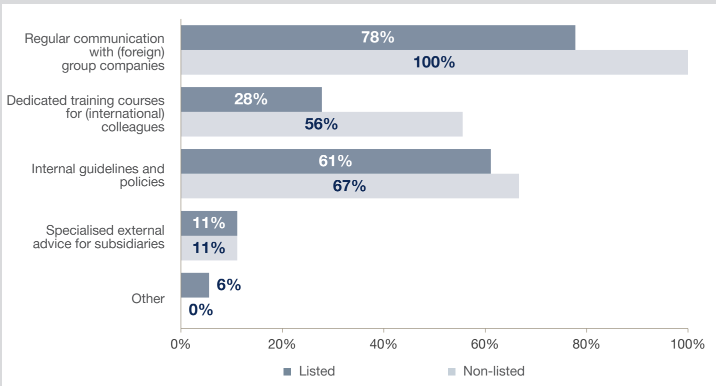
Only 12% of the companies surveyed responded that their group companies based outside the EU benefitted from the increased regulatory requirements for their companies within the EU. The survey indicated that there are few noticeable synergy effects and hardly any fundamental advantages for the companies. Just under a third of the companies surveyed are not yet able to assess how things will develop.

*"Does your corporate group deal with sustainability issues centrally or decentrally?"*



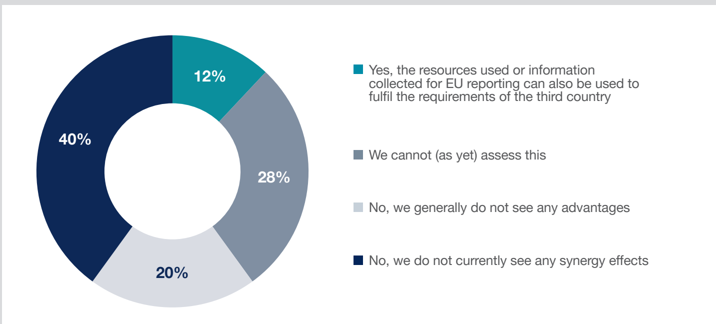

Figures rounded. Scale from 1 (very centralised) to 10 (very decentralised).

*"How do you ensure that the various sustainability concepts are understood consistently across the group in order to duly fulfil your reporting obligations?"*




Figures rounded. Multiple responses permitted.

*"Do your group companies based outside the EU benefit from the increased regulatory requirements for your companies within the EU?"*

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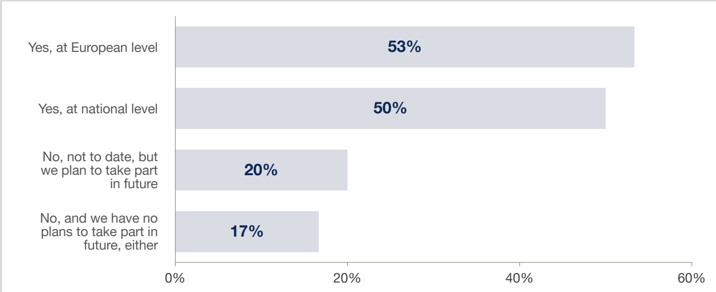
## Involvement in the legislative process and regulatory requests

Corporate involvement in the legislative process can generally enhance the quality of legislation through external expertise and promote acceptance of government initiatives. Around half of the companies surveyed indicated that they take part in consultations during the legislative process at national or European level. Interviewees noted regarding ESG regulation that while the legislator's intention was fundamentally positive, the actual issue of sustainability was being overshadowed by the multitude of regulations and too much red tape. While businesses used to engage with sustainability/ESG topics willingly and out of conviction, it had now often become more of an obligatory exercise due to the many rules and regulations, and enthusiasm for the topic was fading.

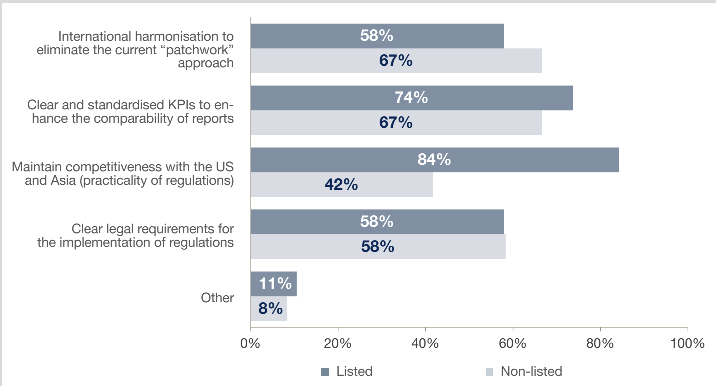
In the final part of the survey, companies were asked what measures they would like the legislator to consider in future. The most frequently expressed wish was for clear and standardised KPIs to enhance the comparability of reports. Over 60% of respondents would also like to see consideration being given to competitiveness with the US and Asia and support international harmonisation to eliminate the current "patchwork" approach, particularly with regard to sustainability reporting and its requirements. Having the legislator take competitiveness with the US and Asia into account in future regulatory measures is significantly more important for listed companies than for non-listed companies.

*Do you take part in consultations during the legislative process?*




Figures rounded. Multiple responses permitted.

*What measures would you like the legislator to consider in future?*




Figures rounded. Multiple responses permitted.

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