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German Accounting Standard No. 20 and Non-Financial Reporting

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- Full-time professional financial translator for over 29 years
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- 2016–2017: Freelance premium financial-legal translator, specialised translator trainer
- Since 01/2018: Owner, Premium Financial-Legal Translations, LLC, Austin, Tx
- Specialized in financial accounting and reporting (IFRSs, German, Austrian, and Swiss GAAP); investor relations; tax; audit, assurance, and advisory; banking, financial markets and insurance regulation and supervision; financial and related legislation; corporate legal
- Joint coordinator of German IFRS Review Committee for IASCF 2003 – 2006; translator of German Accounting Standards (GASs)
- Translator training presentations, seminars and workshops in Germany, Austria, Switzerland, France, UK and U.S.
- Co-chair of FIT ISO Standards Committee (from 2015)
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Part 1: Non-Financial Reporting in Europe
Country-by-Country Reporting

The 2013 Accounting Directive introduced a requirement for “country-by-country” (CbC) reporting by certain listed and large unlisted companies:

- Extractive industries: exploration, prospecting, discovery, development and extraction activities related to oil, natural gas, mineral deposits, etc.
- Logging (of primary forests)

Companies must report all material payments made to governments, broken down by country and project, including:

- production entitlements; taxes levied; royalties and dividends;
- signature, discovery and production bonuses; licence, rental and entry fees; payments for infrastructure improvements

Requirements mirrored in the revised Transparency Directive

- All companies listed in the EU are covered, even if they are not incorporated or registered in the EEA
CSR Directive (1)

Directive 2014/95 EU amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

- Commonly referred to as the CSR (Corporate Social Responsibility) Directive
- Builds on existing non-financial disclosure requirements and national policies, e.g. on environmental, social and governance (ESG) matters
- Harmonises, expands and codifies CSR reporting
- A significant step on the path towards “integrated reporting”

Applies to large PIEs with more than 500 employees

- According to EC, only about 10% of large companies regularly disclose non-financial information
- EC estimates new requirements will cover approximately 18,000 companies/groups across the EU
- EU claims that transparency about non-financial information improves performance, for example due to greater accountability
Public-Interest Entities

Article 2(1) of the Accounting Directive:

...public-interest entities... means undertakings within the scope of Article 1 which are:

(a) governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (12);

(b) credit institutions as defined in point (1) of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (13), other than those referred to in Article 2 of that Directive;

(c) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings (14); or

(d) designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees;
CSR Directive (2)

Companies now have to report relevant, material information on their policies, outcomes and risks, including relevant non-financial KPIs about a range of specified matters (see following slide).

CSR Directive allows flexibility for companies to disclose information in the way they find most relevant, including by applying international, European or national guidelines, e.g.
- UN Global Compact
- ISO 26000 (social responsibility guidance standard)
- German Sustainability Code

Reporting follows the “comply or explain” principle, so if the company does not have in place policies addressing the matters to be disclosed, it must provide a reasoned explanation for not doing so.
CSR Directive (3)

Core provision is requirement to include in the management report a “non-financial statement” containing a brief description of the business model, plus information needed to be able to assess the company’s development, performance and position, and the impact of its activity, specifically about:

- environmental matters
- social and employee-related matters
- respect for human rights
- anti-corruption and bribery matters
- diversity on management bodies

EC has published “Guidelines on non-financial reporting (methodology for reporting non-financial information)”

- Non-binding guidance, but a useful source of information and terminology, available in all EU official languages
- Celex reference: 52017XC0705(01)
CSR Directive (4)

The detailed implementation of the CSR Directive depends on how it has been transposed into national law, but the general requirements apply across-the-board to all large PIEs in the EU (level playing field)

In Germany, the requirements have been transposed into national law by amending the Commercial Code (Handelsgesetzbuch)

More detailed requirements are codified in an amendment to German Accounting Standard No. 20 “Group Management Report”, published by the Deutsches Rechnungslegungs Standards Committee (DRSC)/Accounting Standards Committee of Germany (ASCG) in September 2017

See the following slides for details
Part 2: German Accounting Standard No. 20 (Amended 2017)
Management Reports and GAS 20

DRS 20 Konzernlagebericht/GAS 20 Group Management Report was the outcome of the second phase of the project to revise the German Accounting Standards (GASs) governing group management reporting.

DRS 17 Berichterstattung über die Vergütung der Organmitglieder/GAS 17 Reporting on the Remuneration of Members of Governing Bodies was not included in this project because that standard covers disclosures in the notes in addition to the requirements relating to the group management report.

The German version (DRS 20) was adopted by the ASCG on 2 November 2012 and approved and published by the BMJ on 4 December 2012.

It was effective for financial years beginning after 31 December 2012.
Management Reports – Obligations

The following entities **must** prepare a management report:

- Large and medium-sized corporations (HGB section 264(1)), e.g. AG, GmbH, SE
- Large and medium-sized partnerships in which no natural person is a general partner (HGB sections 264a and 264(1)), e.g. GmbH & Co KG, Ltd. & Co KG
- Plus certain other entities required to prepare and publish financial statements, e.g. cooperatives, banks (credit institutions) and other financial services institutions, and insurance companies

The management report **must** be included in the scope of the audit. If it is not audited, the annual financial statements cannot be adopted.
Original DRS/GAS 20: Requirements (1)

Paragraphs 12 to 35 set out the high-level principles that govern group management reporting:

<table>
<thead>
<tr>
<th>German</th>
<th>English</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vollständigkeit</td>
<td>Completeness</td>
</tr>
<tr>
<td>Verlässlichkeit und Ausgewogenheit</td>
<td>Reliability and freedom from bias</td>
</tr>
<tr>
<td>Klarheit und Übersichtlichkeit</td>
<td>Clarity and transparency</td>
</tr>
<tr>
<td>Vermittlung der Sicht der Konzernleitung</td>
<td>Conveyance of group management’s perspective</td>
</tr>
<tr>
<td>Wesentlichkeit</td>
<td>Materiality</td>
</tr>
<tr>
<td>Informationsabstufung</td>
<td>Proportionality of information</td>
</tr>
</tbody>
</table>
Original DRS/GAS 20: Requirements (2)

Paragraphs 36 to 52 governed fundamental information about the group, while paragraphs 53 to P235 set out the requirements for the primary components of a management report in accordance with GAS 20:

<table>
<thead>
<tr>
<th>German Expression</th>
<th>English Translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wirtschaftsbericht</td>
<td>Report on economic position</td>
</tr>
<tr>
<td>Nachtragsbericht</td>
<td>Report on post-balance sheet date events</td>
</tr>
<tr>
<td>Prognose-, Chancen- und Risikobericht</td>
<td>Report on expected developments and on opportunities and risks</td>
</tr>
<tr>
<td>Internes Kontrollsystem und Risikomanagementsystem bezogen auf den Konzernrechnungslegungsprozess</td>
<td>Internal control system and risk management system relevant for the consolidated financial reporting process</td>
</tr>
<tr>
<td>Risikoberichterstattung in Bezug auf die Verwendung von Finanzinstrumenten</td>
<td>Risk reporting relating to the use of financial instruments</td>
</tr>
<tr>
<td>Übernahmerelevante Angaben</td>
<td>Takeover-related disclosures</td>
</tr>
<tr>
<td>Erklärung zur Unternehmensführung (§ 289a HGB)</td>
<td>Corporate governance statement (section 289a of the HGB)</td>
</tr>
<tr>
<td>Versicherung der gesetzlichen Vertreter</td>
<td>Responsibility statement</td>
</tr>
</tbody>
</table>
DRS/GAS 20 (2017): Additions to ToC

Disclosures concerning the acquisition of own shares
Consolidated corporate governance statement
  Consolidated corporate governance statement expanded to include disclosures on the diversity policy
Consolidated non-financial statement
  Scope
  Exemption
  Reporting alternatives
  Separate consolidated non-financial report
Content of the consolidated non-financial statement
  Business model
  Reportable aspects
  Disclosures on reportable aspects
    Policies pursued, including due diligence processes
    Outcomes of the policies
    Risks from the group’s own business activities, business relationships, products and services
    Non-financial key performance indicators
    References to amounts reported in the consolidated financial statements
Lack of a policy
Use of frameworks
Omission of prejudicial disclosures
DRS 20 (2017): Additions to Summary

Die geforderten Angaben zum Diversitätskonzept, die bestimmte Konzerne in ihrer Konzernerklärung zur Unternehmensführung bereitzustellen haben, werden konkretisiert.

GAS 20 (2017): Additions to Summary

[The Standard] sets out in greater detail the required disclosures for the diversity policy that certain groups must provide in their consolidated corporate governance statement.

Certain groups must enhance their group management reports by adding a consolidated non-financial statement. This statement contains a brief description of the business model and must contain information relating to, as a minimum, the five aspects of environmental matters, social and employee matters, respect for human rights, anti-corruption and bribery matters. Disclosures must be made for these aspects that are necessary for an understanding of the development, performance and position of the group, and of the impact of its business activities on these aspects.
Gemäß § 315d HGB haben Mutterunternehmen, die börsennotierte Aktiengesellschaften, börsennotierte Europäische Gesellschaften (SE) oder börsennotierte Kommanditgesellschaften auf Aktien sind, eine Erklärung zur Unternehmensführung für den Konzern (Konzernerklärung zur Unternehmensführung) in ihren Konzernlagebericht aufzunehmen. Dies gilt auch für Mutterunternehmen, die Aktiengesellschaften, Europäische Gesellschaften (SE) oder Kommanditgesellschaften auf Aktien sind und ausschließlich andere Wertpapiere als Aktien zum Handel an einem organisierten Markt im Sinne des § 2 Abs. 5 WpHG ausgegeben haben und deren ausgegebene Aktien auf eigene Veranlassung über ein multilaterales Handelssystem im Sinne des § 2 Abs. 3 Nr. 8 WpHG gehandelt werden. Die Konzernerklärung zur Unternehmensführung muss einen eigenen Abschnitt im Konzernlagebericht bilden.
In accordance with section 315d of the HGB, parent entities that are listed stock corporations, listed European companies (SEs) or listed partnerships limited by shares shall include a corporate governance statement for the group (consolidated corporate governance statement) in their group management report. This shall also apply to parent entities that are stock corporations, listed European companies (SEs) or listed partnerships limited by shares and that have only issued securities other than shares for trading on a regulated market within the meaning of section 2(5) of the WpHG and whose shares in issue are traded at their own instigation on a multilateral trading facility within the meaning of section 2(3) no. 8 of the WpHG. The consolidated corporate governance statement shall constitute a separate section of the group management report.
Die Angaben zum Diversitätskonzept in der Konzernerklärung zur Unternehmensführung umfassen:

a) eine Beschreibung des Diversitätskonzepts, das im Hinblick auf die Zusammensetzung des vertretungsberechtigten Organs und des Aufsichtsrats verfolgt wird,

b) die Ziele dieses Diversitätskonzepts,

c) die Art und Weise der Umsetzung des Diversitätskonzepts und
d) die in der Berichtsperiode erreichten Ergebnisse.

Wenn das Diversitätskonzept zu keinen Ergebnissen geführt hat, ist dies anzugeben.
GAS 20 (2017): P231f, P231k

The disclosures on the diversity policy in the consolidated corporate governance statement shall include:

a) a description of the diversity policy that is pursued with regard to the composition of the body authorised to represent the entity and the supervisory board,

b) the objectives of that diversity policy,

c) the way the diversity policy has been implemented and

d) the outcome in the reporting period.

If the diversity policy has not produced any outcomes, this fact shall be disclosed.
Berichtsalternativen

Ein Mutterunternehmen kann die im Rahmen der nichtfinanziellen Konzernerklärung gemäß Tz. 257 bis 305 zu machenden Angaben:

a) in den Konzernlagebericht integrieren oder
b) in einen besonderen Abschnitt innerhalb des Konzernlageberichts einfügen oder
c) in einem gesonderten nichtfinanziellen Konzernbericht bereitstellen.
A parent entity can make the disclosures to be made as part of the consolidated non-financial statement in accordance with paras. 257 to 305:

a) as integrated disclosures in the group management report or
b) can include them in a separate section of the group management report or
c) can provide them in a separate consolidated non-financial report.
Voraussetzung für die Erfüllung der Berichtspflichten durch einen gesonderten nichtfinanziellen Konzernbericht ist, dass zumindest die inhaltlichen Vorgaben der Tz. 257 bis 305 erfüllt werden und das Mutterunternehmen den gesonderten nichtfinanziellen Konzernbericht öffentlich zugänglich macht. Der gesonderte nichtfinanzielle Konzernbericht ist öffentlich zugänglich, wenn er:
a) gemeinsam mit dem Konzernlagebericht offengelegt wird oder b) auf der Internetseite des Mutterunternehmens spätestens vier Monate nach dem Abschlussstichtag veröffentlicht wird, mindestens für zehn Jahre nach Veröffentlichung dort verfügbar ist und der Konzernlagebericht auf diese Veröffentlichung unter Angabe der Internetseite Bezug nimmt.
A condition for fulfilling the reporting obligations by preparing a separate consolidated non-financial report is that, as a minimum, the content-related requirements of paras. 257 to 305 are met and that the parent entity makes the separate consolidated non-financial report publicly available. The separate consolidated non-financial report is publicly available if:

a) it is published together with the group management report or

b) it is published on the parent entity’s website no later than four months after the reporting date, is available there for at least ten years following publication, and the group management report refers to this publication, giving the details of the website.
Geschäftsmodell
In der nichtfinanziellen Konzernerklärung ist das Geschäftsmodell des Konzerns kurz darzustellen. Dabei ist, soweit für das Verständnis des Geschäftsmodells erforderlich, auf die in Tz. 37 Buchstabe a bis g genannten Merkmale einzugehen. Die Verweismöglichkeiten gemäß Tz. 243 und 256 bestehen analog.

Berichtspflichtige Aspekte
Die nichtfinanzielle Konzernerklärung muss Angaben zu bestimmten Aspekten beinhalten (berichtspflichtige Aspekte). Die berichtspflichtigen Aspekte umfassen zumindest:
   a) Umweltbelange,
   b) Arbeitnehmerbelange,
   c) Sozialbelange,
   d) Achtung der Menschenrechte,
   e) Bekämpfung von Korruption und Bestechung.
GAS 20 (2017): P257, P258

Business model
The group’s business model shall be described briefly in the consolidated non-financial statement. To the extent necessary for an understanding of the business model, the criteria set out in para. 37a) to g) shall be discussed. The cross-reference options in accordance with paras. 243 and 256 shall apply, with the necessary modifications.

Reportable aspects
The consolidated non-financial statement shall contain disclosures on certain aspects (reportable aspects). As a minimum, the reportable aspects shall include:

a) environmental matters,
b) employee matters,
c) social matters,
d) respect for human rights,
e) anti-corruption and bribery matters.
Beispiele für nichtfinanzielle Leistungsindikatoren sind:

a) für den Aspekt Umweltbelange:
   Wasserverbrauch pro Jahr
   Tonnen CO₂-Ausstoß pro Jahr
   Energieeffizienz der eigenen Produkte

b) für den Aspekt Arbeitnehmerbelange:
   Personalfluktuation
   Mitarbeiterzufriedenheit
   Anzahl Arbeitsunfälle

c) für den Aspekt Sozialbelange:
   Spenden an gemeinnützige Organisationen
   Anzahl der Mitarbeitern gewährten Sonderurlaubstage für gemeinnützige Tätigkeiten

d) für den Aspekt Achtung der Menschenrechte:
   Anteil der im Hinblick auf Menschenrechte zertifizierten Lieferanten bzw. Subunternehmen
   Anzahl der Fälle von Kinderarbeit bei überprüften Lieferanten

e) für den Aspekt Bekämpfung von Korruption und Bestechung:
   • Anteil der Mitarbeiter, die ein Compliance-Training absolviert haben
   Anzahl bestätigter Korruptionsfälle im Geschäftsjahr
Examples of non-financial key performance indicators include:

a) for the aspect of environmental matters:
   - water use per year
   - tonnes of CO₂ emissions per year
   - energy efficiency of the group’s own products

b) for the aspect of employee matters:
   - employee turnover
   - employee satisfaction
   - number of workplace accidents

c) for the aspect of social matters:
   - donations to non-profit organisations
   - number of special vacation days granted to employees for non-profit activities

d) for the aspect of respect for human rights:
   - proportion of suppliers and subcontractors who are certified in respect of human rights
   - number of cases of child labour at inspected suppliers

e) for the aspect of anti-corruption and bribery matters:
   - number of employees who have completed a compliance training
   - number of confirmed cases of corruption in the financial year
In die nichtfinanzielle Konzernerklärung müssen keine Angaben zu künftigen Entwicklungen oder Belangen, über die Verhandlungen geführt werden, aufgenommen werden, wenn folgende Bedingungen kumulativ erfüllt sind:

a) Die Angaben sind nach vernünftiger kaufmännischer Beurteilung der Konzernleitung geeignet, dem Konzern einen erheblichen Nachteil zuzufügen.

Omission of prejudicial disclosures

There is no requirement to include disclosures in the consolidated non-financial statement relating to impending developments or matters in the course of negotiation if all of the following conditions are fulfilled:

a) in the prudent business judgement of group management, disclosure of that information would be seriously prejudicial to the group.

b) omitting the information does not prevent a fair and balanced understanding of the group’s development, performance and position, and of the impact of the group’s business activities on the aspects that are reportable in accordance with para. 258.
What’s Next? ESEF!

European Single Electronic Format (ESEF) published by the European Securities and Markets Authority (ESMA) in 12/2017

Electronic format to be used by all issuers to prepare and publish their annual reports from 2020

Requirement contained in amended Transparency Directive, which mandated ESMA to develop regulatory technical standards (RTS)

Expected to make reporting easier for issuers and to enhance the accessibility, analysis and comparability of annual reports

All annual reports will have to be prepared in XHTML

IFRS financial information must be labelled with XBRL (eXtensible Business Reporting Language) tags, thus automating data analysis, etc.

Tags will be embedded in the XHTML document using Inline XBRL

Core ESEF taxonomy is an extension of the IFRS taxonomy

Primary financial statements: detailed tagging

Notes: “block tagging” of entire sections

What are the consequences for financial report translations?
Thank You!
Any Questions?