



American Translators Association  
59th Annual Conference  
New Orleans, October 27, 2018

# **German Accounting Standard No. 20 and Non-Financial Reporting**

*Robin Bonthrone, CT MITI*  
*Premium Financial-Legal Translations, LLC*



# Copyright Notice/Disclaimer

- All original material in the presentation given at this seminar and in the accompanying handouts, is

© 2018 Robin Bon throne, Premium Financial-Legal Translations, LLC

- Direct extracts from DRS/GAS 20 are © Deutsches Rechnungslegungs Standards Committee, e.V.
- Certain other material in this presentation and in any accompanying materials is or may be the intellectual property of third parties. Wherever possible, these third parties have been identified and their rights have been acknowledged. However, no assurance can be given that the copyright owners of material that has been directly cited have been identified, or identified correctly, in all cases.



# Robin Bonthrone, CT MITI

- Full-time professional financial translator for over 29 years
- Managing partner of boutique financial translation company in Germany from 1995 to 2016
- 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)
- Contact: [rb@robinbonthrone.com](mailto:rb@robinbonthrone.com)



# 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:

*Vollständigkeit*

*Completeness*

*Verlässlichkeit und Ausgewogenheit*

*Reliability and freedom from bias*

*Klarheit und Übersichtlichkeit*

*Clarity and transparency*

*Vermittlung der Sicht der Konzernleitung*

*Conveyance of group management's perspective*

*Wesentlichkeit*

*Materiality*

*Informationsabstufung*

*Proportionality of information*



# 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:

Wirtschaftsbericht	Report on economic position
Nachtragsbericht	Report on post-balance sheet date events
Prognose-, Chancen- und Risikobericht	Report on expected developments and on opportunities and risks
Internes Kontrollsystem und Risikomanagementsystem bezogen auf den Konzernrechnungslegungsprozess	Internal control system and risk management system relevant for the consolidated financial reporting process
Risikoberichterstattung in Bezug auf die Verwendung von Finanzinstrumenten	Risk reporting relating to the use of financial instruments
Übernahmerelevante Angaben	Takeover-related disclosures
Erklärung zur Unternehmensführung (§ 289a HGB)	Corporate governance statement (section 289a of the HGB)
Versicherung der gesetzlichen Vertreter	Responsibility statement



# 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 Konzernklärung zur Unternehmensführung bereitzustellen haben, werden konkretisiert.

Bestimmte Konzerne haben ihren Konzernlagebericht um eine nichtfinanzielle Konzernklärung zu erweitern. Diese Erklärung beinhaltet eine kurze Darstellung des Geschäftsmodells und muss sich zumindest auf die fünf Aspekte Umwelt-, Sozial- und Arbeitnehmerbelange, Achtung der Menschenrechte und die Bekämpfung von Korruption und Bestechung beziehen. Für diese Aspekte sind Angaben zu machen, die für das Verständnis des Geschäftsverlaufs, des Geschäftsergebnisses, der Lage des Konzerns sowie der Auswirkungen der Geschäftstätigkeit des Konzerns auf die Aspekte erforderlich sind.



## 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.

## DRS 20 (2017): K224

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.



## GAS 20 (2017): P224

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.



## DRS 20 (2017): K231f, K231k

Die Angaben zum Diversitätskonzept in der Konzernklärung 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.

# DRS 20 (2017): K241

## *Berichtsalternativen*

Ein Mutterunternehmen kann die im Rahmen der nichtfinanziellen Konzernklärung 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.



## GAS 20 (2017): P241

### *Reporting alternatives*

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.





## DRS 20 (2017): K246

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.



## GAS 20 (2017): P246

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.

# DRS 20 (2017): K257, K258

## *Geschäftsmodell*

In der nichtfinanziellen Konzernklärung 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 Konzernklärung 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.

# DRS 20 (2017): K286

Beispiele für nichtfinanzielle Leistungsindikatoren sind:

- a) für den Aspekt Umweltbelange:
  - Wasserverbrauch pro Jahr
  - Tonnen CO<sub>2</sub>-Ausstoß pro Jahr
  - Energieeffizienz der eigenen Produkte
- b) für den Aspekt Arbeitnehmerbelange:
  - Personalfluktuationsrate
  - 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



## GAS 20 (2017): P286

Examples of non-financial key performance indicators include:

a) for the aspect of environmental matters:

- water use per year

- tonnes of CO<sub>2</sub> 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

# DRS 20 (2017): K302

## *Weglassen nachteiliger Angaben*

In die nichtfinanzielle Konzernklärung 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.
- b) Das Weglassen der Angaben verhindert nicht ein den tatsächlichen Verhältnissen entsprechendes und ausgewogenes Verständnis des Geschäftsverlaufs, des Geschäftsergebnisses, der Lage sowie der Auswirkungen der Geschäftstätigkeit des Konzerns auf die nach Tz. 258 berichtspflichtigen Aspekte.



## GAS 20 (2017): P302

### *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?