

PRESS RELEASE

Frankfurt am Main, 27 January 2022

Code reform 2022 – sustainability is gaining importance

- **Government Commission launches consultation procedure**
- **Management Boards shall balance economic, environmental and social issues**
- **Sustainability to become an integral part of corporate strategy**
- **Revision of the Audit Committee recommendations in accordance with the FISG**

Environmental and social sustainability must be considered when managing and supervising listed companies. The German Corporate Governance Code (the Code) wants to take this into account by making the respective adjustments. In addition, the German Financial Market Integrity Strengthening Act (*Finanzmarktintegritätsstärkungsgesetz – “FISG”*) requires further changes.

When the consultation procedure opened on 25 January 2022, the Commission published and explained the proposed amendments to the Code concerning German listed companies on the Code website (www.dcgk.de).

“In the Foreword of the versions in force since 2009, the Code has always considered corporate governance to serve all stakeholders, and with the Code reform 2020, companies’ responsibility in terms of ecological and social factors was given special attention. However, the statement on responsibility to the society at large must be readjusted, as expectations regarding the consideration of sustainability factors have become much more specific,” says Rolf Nonnenmacher, Chairman of the Government Commission, explaining that the extended reporting obligations under the EU’s forthcoming Corporate Sustainability Reporting Directive (CSRD) added to this.

“Management has to balance economic requirements with the environmental and social consequences of a company’s activities,” Nonnenmacher continues. Accordingly, sustainability shall be anchored in corporate strategy. This translates into the new Recommendation A.1. The Management Board shall systematically identify and assess the company’s risks and opportunities associated with social and environmental factors, as well as the environmental and social effects of its activities. The corporate

strategy shall explain how the economic, environmental and social objectives can be achieved in a well-balanced manner. Effective implementation of the corporate strategy requires correspondingly comprehensive management of the enterprise and control.

The Supervisory Board shall monitor how the Management Board deals with sustainability issues. In order to duly fulfil their duties, Supervisory Boards require the respective expertise in terms of sustainability.

Improving transparency on the internal control and risk management system

The FISG requires public limited companies to establish an internal control and risk management system. According to the revised Code, the main characteristics of the internal control and risk management system – including the compliance management system – shall be set out in the management report. The Management Board shall provide comment upon the adequacy and effectiveness of these systems.

Consistent requirements for expertise and independence of the Audit Committee members

The Code maintains its view that the Chair of the Audit Committee shall be an independent financial expert. According to the Code, the two financial experts required by the FISG on the Audit Committee need to have special knowledge and experience in the fields of reporting and auditing. This applies equally to financial and sustainability reporting.

Consultation procedure launched

The interested public may comment in writing upon the proposed adjustments of the Code until 11 March 2022. Comments received by the deadline will be considered in the Government Commission's final deliberations. Subsequently, the new version of the Code is to be submitted to the German Federal Ministry of Justice and Consumer Protection, for publication in the electronic German Federal Gazette. Comments received will be published on the Government Commission's website, if consultation participants agree to such publication.

Notes for editorial staff:

Regierungskommission Deutscher Corporate Governance Kodex

The Government Commission convened by the German Federal Minister of Justice in September 2001 approved the German Corporate Government Code on 26th February 2002, which gained legal recognition by virtue of the Declaration of Conformity in accordance with §161 AktG.

The German Corporate Governance Code is intended to make the rules applicable in Germany for company management and supervision transparent to national and international investors in order to strengthen trust in the management of German companies.

The members of the Commission are: Prof. Dr. Rolf Nonnenmacher (Chairman), Dr. Margarete Haase, Claudia Kruse, Prof. Dr. Klaus-Peter Naumann, Marc Tüngler, Jens Wilhelm, Dr. Werner Brandt, Dr. Daniela Favoccia, Dr. Michael Kemmer, Dr. Bettina Orlopp, Dr. Ariane Reinhart, Helene von Roeder, Reiner Winkler, Dr. Sebastian Sick.

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