Monitoring Committee

CORPORATE GOVERNANCE CODE

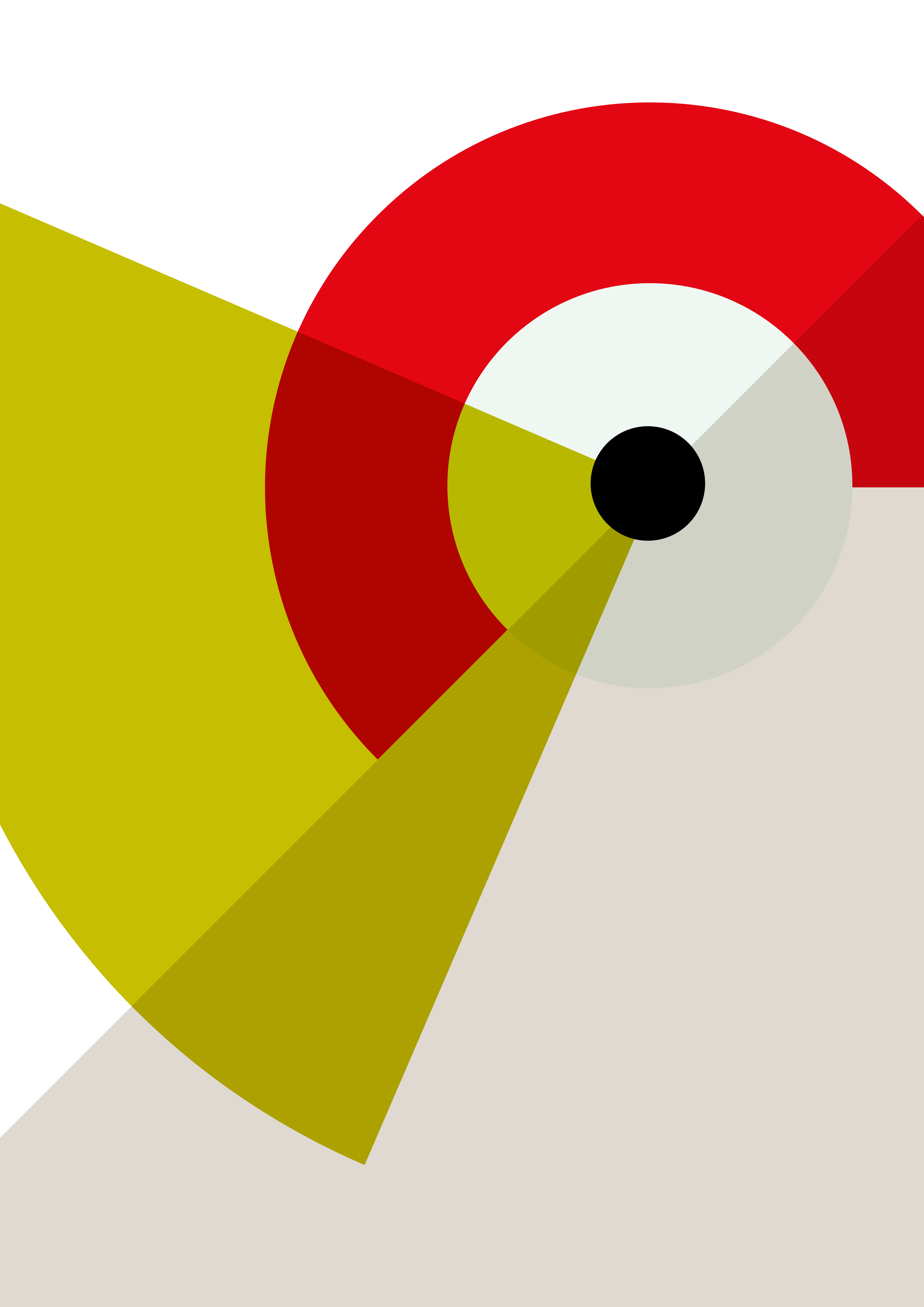
Monitoring Report
on the 2020 Financial Year

ENGLISH TRANSLATION

December 2021

secretariat:
PO Box 20401, 2500 EK Den Haag

www.mccg.nl



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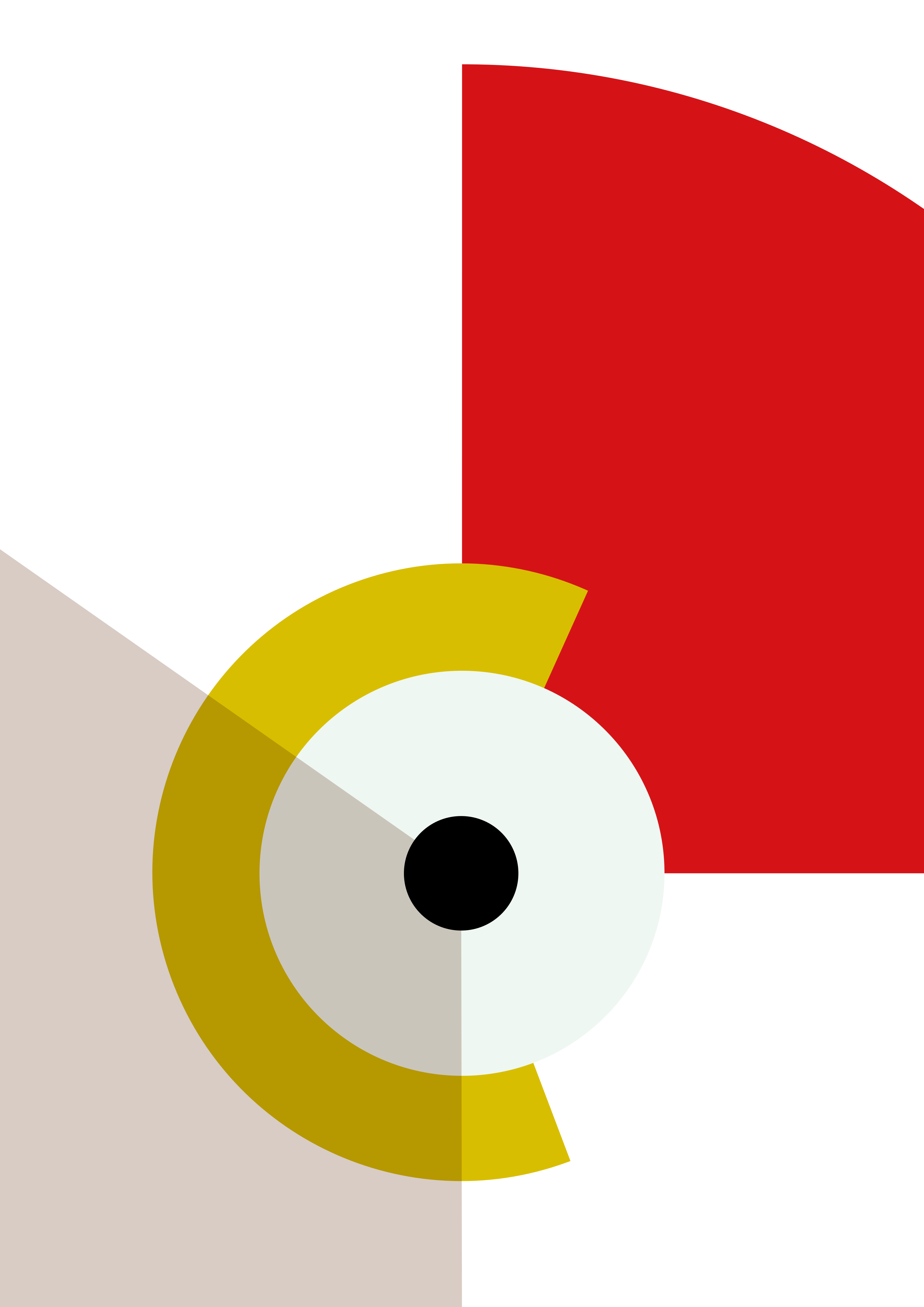
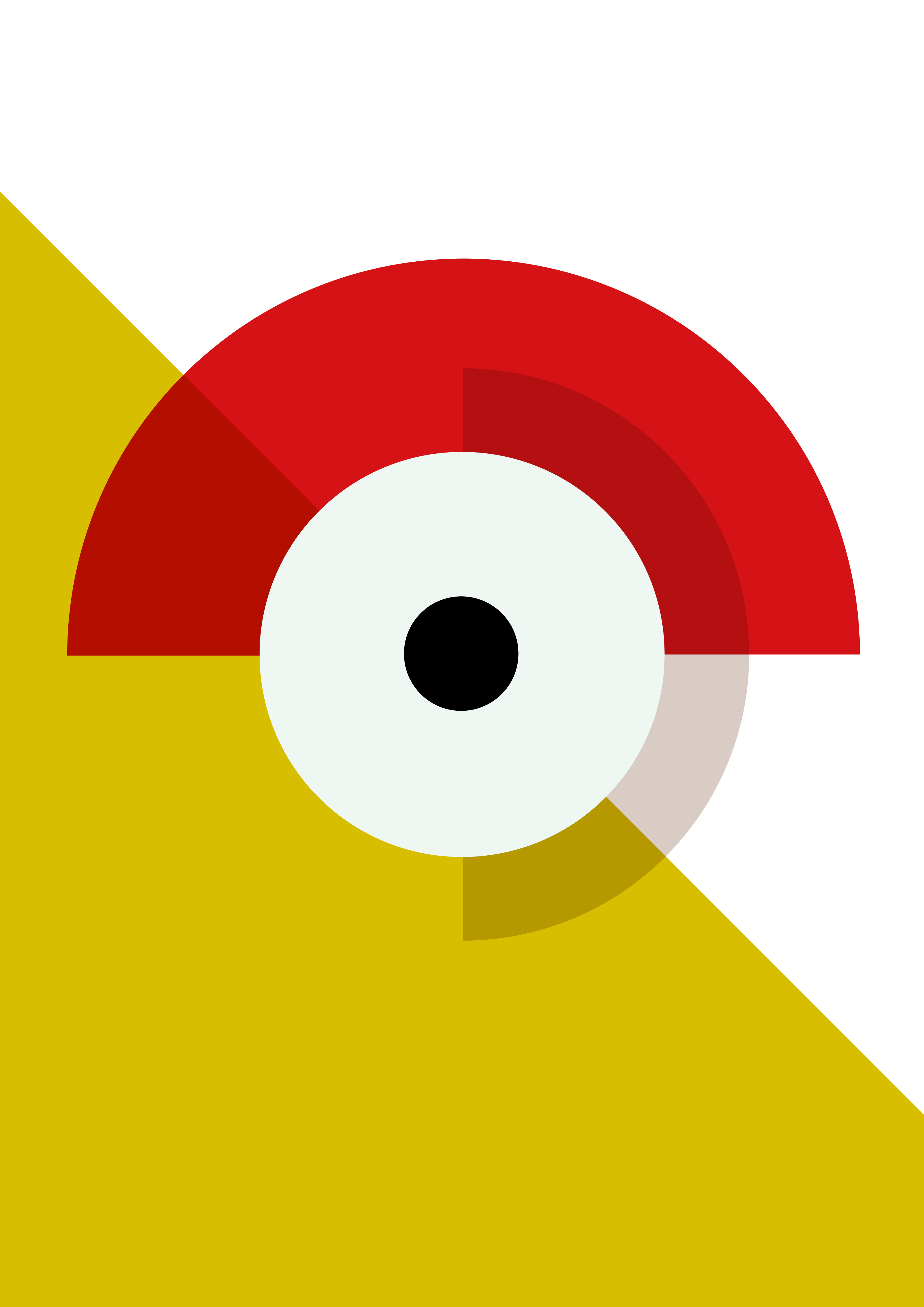


TABLE OF CONTENTS



FOREWORD

This Monitoring Report focuses on meaningful reporting on compliance with the Dutch Corporate Governance Code. The basic principle of the Code is that its operation is not determined by the extent to which it is complied with to the letter, but rather by the extent to which all stakeholders are guided by the spirit of the Code.[1] While the previous compliance studies revealed high overall compliance rates, this largely involved *assumed* compliance. This is due to the 'comply or explain' principle: unless companies state that they deviate from a provision in the Code, compliance is to be assumed. In the previous compliance study, the Committee already noted that the assumed-compliance method paints an overly optimistic picture of the actual level of compliance with a number of fundamental conduct-related provisions of the Code. In order to obtain more insight into the quality of companies' implementation of some of the most relevant principles and best practice provisions in the Code, the compliance study for the 2020 financial year focused primarily on the *quality* of reporting by companies on five key themes in the Code: long-term value creation, risk management, culture, diversity and remuneration.

Based on the compliance study, the Committee notes that reporting often does not yet sufficiently reflect the underlying conduct-related provisions, so that the meaningfulness of reporting on these five key themes is diminished to some extent.

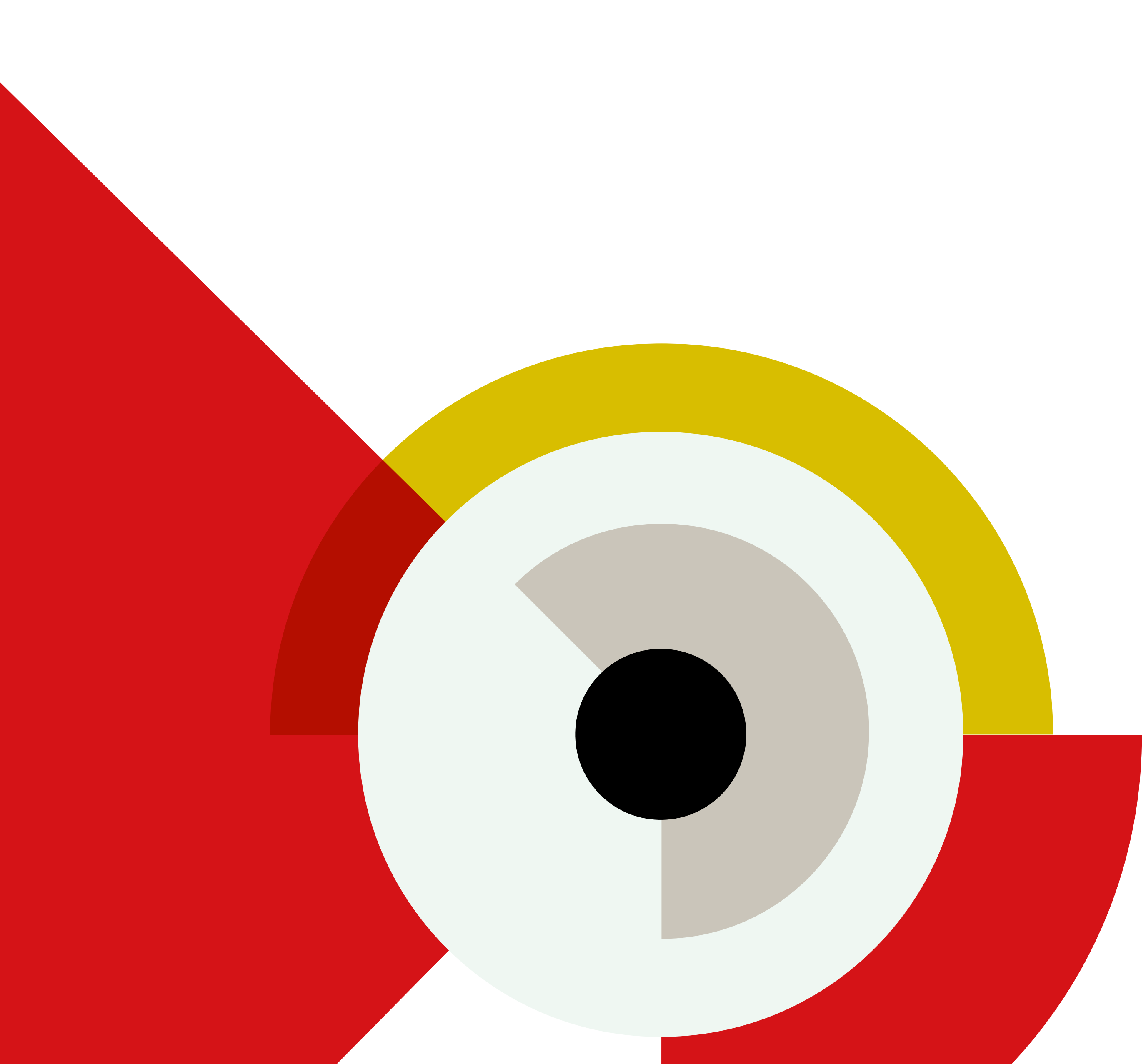
Five years after the publication of the revised Code, the Committee, together with the supporting parties, has noted that there is a need for it to be updated. This is partly driven by social developments concerning climate change and growing social inequality. The Committee is working with the supporting parties on proposals to update the Code. The Committee aims to submit the draft of the updated Code for consultation in the first quarter of 2022.

Chapter 1 provides summary information about the Code and the Committee. Chapter 2 sets out the detailed results of the compliance study. In Chapter 3, the Committee provides a number of examples of meaningful reporting. This foreword is followed by a summary of the Committee's findings.

The Committee is indebted to the researchers at SEO, to Maarten Buma of the law firm NautaDutilh for the legal support provided, and to Margje de Mik and Rachel Kitaman who jointly form the Committee Secretariat. A special word of appreciation goes to the companies for their participation in the survey and the focus groups, as well as the supporting parties, which kept the Code alive in many discussions with the Committee and helped advance the reflection process on good governance.

Pauline van der Meer Mohr
Chairman of the Dutch Corporate Governance Code Monitoring Committee

[1] See the Preamble of the Code.



SUMMARY

Methodology

In contrast to previous years, the compliance study for the 2020 financial year does not track overall compliance with the Code. This study focuses on the quality of reporting on five key themes in the Code: long-term value creation, risk management, culture, diversity and remuneration. The *reporting* provisions of the Code regarding these themes primarily aim to encourage companies to provide insight into how they implement the *conduct-related* provisions in the Code concerning these themes ('principles' and 'best practices').

On the one hand, this year SEO Economic Research used desk research and the same methodology as in prior years to examine whether companies comply with the literal text of reporting provisions in the Code that relate to the aforementioned themes. On the other hand, on the request of the Committee, SEO conducted in-depth desk research into the quality of reporting on these themes. More specifically, it examined to what extent companies' reporting on the basis of the underlying conduct-related provisions in the Code is process-oriented or predominantly content-oriented. The in-depth analysis carried out by SEO also looked at whether and how companies' reporting reflects the internal coherence between various provisions in the Code that expressly refer to each other. In addition to the desk research, SEO conducted a survey among companies. It also conducted talks with representatives of companies in three focus groups.

Main findings of compliance study

- The compliance rates (according to the customary methodology) do not differ materially from the results of previous financial years.
- The in-depth desk research shows that is the reporting on the selected themes is often process-oriented and closely in line with the literal text of the relevant reporting provision, instead of more substantive and meaningful reporting guided by the underlying conduct-related provisions.
- Compliance with the Code should not be viewed as a box-ticking exercise. The Committee calls on companies to embrace the Code's intentions. The use of standard texts ('boilerplate') in annual reports does not adequately reflect those intentions. Meaningful reporting not only describes processes and actions, but also provides insight into dilemmas that arise, the ensuing considerations, the resulting outcomes and impact on the company.
- The in-depth desk research also reveals that companies often report on the internal coherence between the various themes and the interrelated provisions of the Code to a limited extent. Topics such as culture and long-term value creation are often not explicitly linked to each other in annual reports. Companies can make greater use of the key concept of long-term value creation as an organising principle for (reporting on) corporate governance.

  Long-term value creation

  - Reporting on the supervisory board's involvement in establishing the strategy for long-term value creation, and the way in which it monitors its
    implementation (provision 1.1.3), is often process-oriented. While companies are not expected to disclose the exact impact of the supervisory board on the strategy for long-term value creation, they might for example provide more insight into topics that are given special attention by the supervisory board and why that is the case.
  - More than half of the companies report separately on strategy and long-term value creation, while these two topics are interrelated in the Code. It is preferable to report on these topics in conjunction with each other.

- The Committee sees scope for improving reporting on stakeholders' involvement and their interests, in particular in relation to the strategy for long-term value creation.

Risk management

- On the basis of the customary methodology used in the study, compliance with provisions 1.4.2 and 1.4.3 is fairly satisfactory. However, the in-depth desk research reveals that not all companies provide adequate insight into the various risk categories and the risk appetite. A properly substantiated description of risks identified and the risk appetite per category will contribute to meaningful reporting.
- In reporting on risk management, the link with the strategy for long-term value creation is not always explicitly established, while this is desirable.
- With the exception of the companies listed abroad, the management report of almost all companies contains a statement by the management board that is in line with the literal text of provision 1.4.3. In 80% of all cases, that statement is substantiated by reference to the risk section, whereas more insight can generally be provided by including a substantiation in the statement itself.

Culture

- The Committee notes that there is scope for companies to report more meaningfully on culture and values. For example, there is often no clear explanation of why the selected values are appropriate for the company and how those values contribute to long-term value creation.
- The Committee has previously called on companies to focus explicitly on creating a culture targeted at creating long-term value and it is reiterating that call. This can be done, for example, by setting values, behaviour (including the 'tone at the top'), remuneration systems and by placing more emphasis on culture and behavior when evaluating the management board and the supervisory board.
- Companies can be expected to make clear in their reporting how a culture is created that is targeted at creating long-term value and what its impact is.

Diversity

- The desk research shows that compliance on this theme is still too low. Reporting on diversity is often not substantive and diversity goals are not substantiated or only to a limited extent.
- The Committee reiterates its call of last year to place the theme of diversity higher on the agenda in the broadest sense, pointing out that diversity encompasses more than just gender diversity.

Remuneration

- Companies generally report in accordance with the literal text of provision 3.4.1 (remuneration report), but the approach of that reporting is usually process-oriented.
- Companies often do not reflect on their remuneration structure, and do not always state clearly how they take various aspects into account when formulating the remuneration policy for directors. In addition, companies generally do not report on the question of whether a pay ratio is considered appropriate. There is scope for improvement here.
- The results of the survey and the focus groups indicate that in some cases companies do more in the field of the themes surveyed than they spotlight in their annual reports. This applies, for example, to safeguarding the culture internally and to involving stakeholders in the development of a view on long-term value creation. Companies themselves stated that there is scope for improvement. The Committee also considers this to be desirable.

Towards a content-oriented assessment

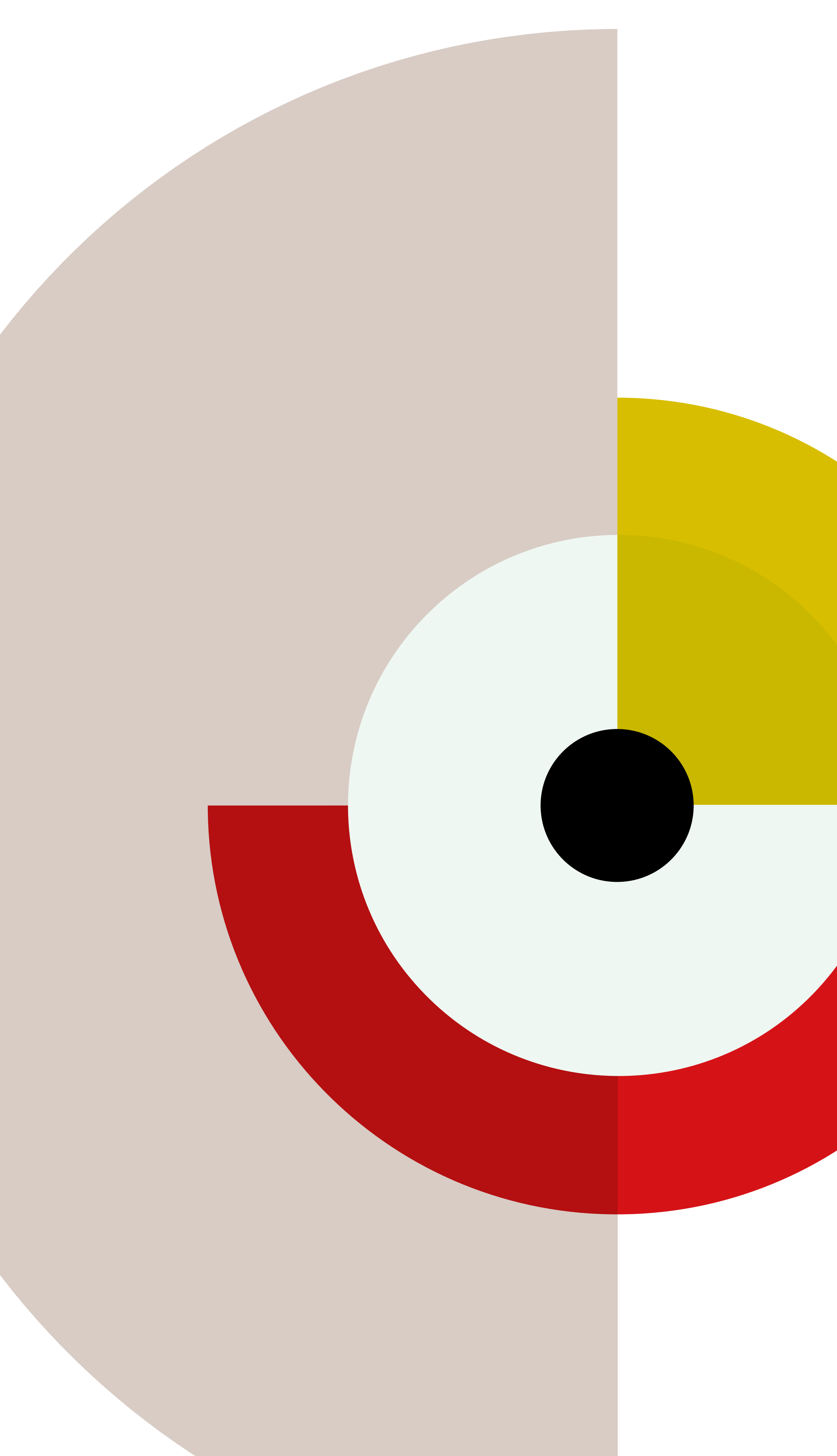
Companies are increasingly expected to provide insight into how they take ESG factors and corporate social responsibility into account. As a result, content-oriented rather than process-oriented reporting is becoming increasingly important. A more content-oriented assessment can be reasonably expected to be incorporated in the future in monitoring compliance with the Code. Therefore, in its monitoring of the financial year

2021, the Committee will continue to pay special attention to the quality of reporting by companies. The Committee calls on companies to critically review the process-oriented approach of their reporting and to focus predominantly on content-oriented relevant and meaningful reporting in their annual reporting on the 2021 financial year and subsequent financial years. The Committee would like companies to provide more insight into the governance challenges lying ahead, the dilemmas they face and their deliberations in this connection.

Compliance rates

As in previous years, there are differences in compliance depending on the size of companies and on whether they have their main listing in the Netherlands or abroad. Larger companies tend to comply more closely with the Code than smaller companies. On the basis of the methodology used in the study in recent years, compliance with the selected provisions is between 94.7% and 100% among AEX companies, between 91.4% and 100% among AMX companies, between 90% and 100% among AScX companies and between 57.4% and 96.7% among locally listed companies. Like last year, SEO has included in this study, in addition to the aforementioned companies with a listing in Amsterdam, a selection of Dutch companies with only a listing abroad. These companies are also referred to below as 'foreign companies'. The compliance rates for the selected provisions are between 65.3% and 96.7% for those companies.

The average compliance rate according to the desk research that examined whether companies comply with the literal text of the selected reporting provisions is 93.6% for the companies listed in Amsterdam (2019 financial year: 94.3%), compared to 80.1% for foreign companies.



CHAPTER 1: INTRODUCTION

1.1 The Dutch Corporate Governance Code

The Dutch Corporate Governance Code (the Code) contains principles and *best practice* provisions that focus on promoting good governance at listed companies.[2] The Code regulates the relationships between the management board, the supervisory board and the shareholders (and the general meeting of shareholders). Listed companies use the Code as a guide in designing their governance. In addition, the Code is a source of inspiration for many other companies and institutions that choose to apply the Code voluntarily.

Listed companies must render account on compliance with the Code in the management report.[3] The Code is considered to have been complied with if a company applies a principle or provision of the Code (hereinafter referred to as: 'application') or if a company provides substantiation for why it has not applied a provision (hereinafter referred to as: 'substantiated deviation'). Deviation from a provision (i.e. non-application) without giving reasons in the annual report constitutes non-compliance. Dutch institutional investors are required to render account in their annual report on compliance with the principles and *best practice* provisions of the Code that pertain to them.[4]

The Code is a self-regulatory instrument for market parties, i.e. the so-called supporting parties. The supporting parties of the Code are: Eumedion, Euronext, the Dutch Trade Union Confederation (FNV), the National Federation of Christian Trade Unions in the Netherlands (CNV), the Association of Stockholders (VEB), the Association of Securities-Issuing Companies (VEUO) and the Confederation of Netherlands Industry and Employers (VNO-NCW).

1.2 The Corporate Governance Code Monitoring Committee

The task of the Corporate Governance Code Monitoring Committee (hereinafter: the Committee) is to ensure that the Code remains relevant and useful, and it performs this task by:

- taking stock at least once a year of how and to what extent the regulations of the Code are being complied with;
- keeping up-to-date with international developments and practices in the area of corporate governance with a view to convergence of national codes;
- identifying gaps or ambiguities in the Code.[5]

At least once a year, the Committee reports its findings to the Ministers of Economic Affairs and Climate Policy, Finance, and Legal Protection. In this report, the Committee may also provide guidelines (guidance) for complying with regulations in the Code.

2 By 'listed companies', we mean:
- all companies whose registered offices are in the Netherlands and whose shares, or depositary receipts for shares, have been admitted to trading on a regulated market or a comparable system; and
- all large companies whose registered offices are in the Netherlands (balance sheet value > €500 million) and whose shares, or depositary receipts for shares, have been admitted to trading on a multilateral trading system or a comparable system.

3 Section 2:391(5) of the Dutch Civil Code, in conjunction with Decree on the Content of the Management Report (*Besluit inhoud bestuursverslag*).

4 Section 5:86 of the Financial Supervision Act (*Wet op het financieel toezicht*)

5 Article 2(3) of the Decree Establishing the Corporate Governance Code Monitoring Committee (*Instellingsbesluit Monitoring Commissie Corporate Governance Code*).

The current Committee consists of a chairman and six members. As of 1 January 2019, the Committee was appointed for a term of four years by Minister Wiebes of Economic Affairs and Climate Policy. An overview of the composition of the Committee can be found in Appendix 1.

The Committee held six regular plenary meetings in 2021. The vast majority of the meetings took place virtually. The Committee also organised four additional meetings in which the possibility of updating the Code was discussed.

1.3 Review of 2021

Monitoring targeted at qualitative compliance
One of the tasks of the Committee is to identify how and to what extent the provisions of the Code are complied with by listed companies. The way in which this is reviewed evolves over the years. Previous monitoring committees, chaired by Mr Streppel and by Mr Van Manen, paid special attention to the quality of the reasoned explanation for any deviations from the Code. In its final document, the Committee Streppel concluded "that compliance based on the 'comply or explain' principle is nothing but an empty shell if the quality of the reasoned explanation is not sufficient." The Van Manen Committee stated that an explanation of insufficient quality was to be recorded as non-compliance and to be counted for the purpose of calculating compliance rates.

The current Committee is seeing a growing plea from society for companies to do more in terms of sustainability and corporate social responsibility. This offers opportunities for companies, but may also involve risks. The increased focus on ESG factors in doing business also impacts companies' annual reporting. Developments in sustainability reporting are succeeding each other at an extremely high pace. There is a clear need for meaningful reporting and companies will be faced with stricter requirements in this area in the coming years.

A key basic principle for the operation of the Code is that it is not determined by the extent to which the Code is complied with to the literal text, but rather by the extent to which all stakeholders are guided by the spirit of the Code. In this light, the Committee sets store by the quality of explanations in general and not only in the event of departures from the Code. This is partly because previous compliance studies produced high overall compliance rates but to a large extent these comprised assumed compliance arising from the 'comply or explain' principle of the Code: the compliance study is based on the assumption that the provisions of the Code are applied, unless a company itself states that a provision is not applied, or if, following up on the compliance study, non-compliance is established on the basis of public documents. This gave rise to the question of whether those high compliance rates were in fact as representative as they seemed. In the compliance study for the 2019 financial year, the Committee had already arranged for in-depth analysis of the quality of the explanations and reasons given in the case of *departures*. In the compliance study for the 2020 financial year, the Committee requested SEO to review the *quality* of the explanation of the reporting requirements for five key themes in the Code: long-term value creation, risk management, culture, diversity and remuneration. This resulted in a revised approach and methodology for the compliance study for the 2020 financial year. More information on this can be found in the chapter 'Compliance Study'.

Current relevance and usefulness of the Code
As announced in the previous Monitoring Report, in 2021 the Committee has sought to examine the themes of long-term value creation, stakeholder dialogue, the role of shareholders and diversity in greater depth. At the beginning of this year, the Committee discussed these themes in work meetings with the supporting parties. These work meetings and recent developments in society in the area of sustainability in particular provide grounds for updating the Code. Together with the supporting parties, the Committee is working to update the themes of long-term value creation, stakeholder dialogue, the role of shareholders and

diversity. In addition, the Committee is looking at the recommendations in the report 'Strengthening the Accountability Chain' (*Versterking Verantwoordingsketen*) from Leiden University[6] and the provisions on the response time in the light of the new legal reflection period. The Committee aims to submit the draft of the updated Code for consultation in the first quarter of 2022.

International contacts

One of the explicit tasks of the Committee is to keep track of international developments in the field of corporate governance. The ways in which the Committee fulfils this task include attending international meetings. The knowledge gained at these meetings helps deepen the Committee's understanding of good corporate governance. A virtual meeting of the Seven Chairs group took place on 29 November 2021. This is an annual meeting of the chairmen of the corporate governance code committees of Germany, France, Italy, Sweden, the United Kingdom, Belgium and the Netherlands. This meeting was dominated by the following themes: ESG, gender diversity and general meetings (physical or virtual).

National and international developments

The Committee follows the various national and international developments on corporate governance with great interest.

In line with last year, the Committee sees the topics of remuneration, diversity, long-term value creation, sustainable corporate governance and the role of shareholders recurring often in the public debate. The topics that receive the greatest attention are long-term value creation and sustainability.

Long-term value creation, sustainability and ESG

At the international and national level, companies are increasingly expected to act in a sustainable manner and focus on the creation of long-term value while carefully considering the interests of all stakeholders. This received a major impetus in the past year driven by numerous developments at an EU level and, among other things, the ruling of the Hague District Court in the case Milieudefensie et al. versus Shell.[7] For example the European Commission is preparing a legislative initiative to strengthen the regulatory framework of the EU for company law and corporate governance.[8] The aims of this initiative include embedding sustainability more effectively in the corporate governance framework to ensure closer alignment of the long-term interests of the management board, shareholders, stakeholders and society. In addition, the European Commission has introduced the Taxonomy Regulation, resulting in several delegated regulations that provide guidance for companies on what sustainable activities are and how to report on them.[9] This is connected with the revision of the Non-Financial Reporting Directive (NFRD) by means of the Corporate Sustainability Reporting Directive (CSRD).[10] This is also an important topic for neighbouring countries and the Committee is closely following developments in European Union Member States and other countries.

6 Parliamentary Papers II, 2020/2021, 33 977 No. 37.
7 ECLI:NL:RBDHA:2021:5337
8 European Commission, Sustainable Corporate Governance Initiative, available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance.
9 European Commission, EU taxonomy for sustainable activities, available at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en
10 European Commission, Corporate sustainability reporting, available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

Diversity
With effect from 1 January 2022, the Balanced Male-Female Ratio Act (*wetsvoorstel evenwichtiger man/vrouw verhouding*) will enter into force.[11] This Bill aims to ensure a more balanced ratio between men and women on the supervisory boards and management boards and among second-tier management at large companies. In other countries, legislation on the diversity policy of companies is also evolving.

Statutory reflection period
With effect from 1 May 2021, the statutory reflection period for listed companies was introduced in Book 2 of the Dutch Civil Code. As a result, the board of a listed company may invoke a reflection period of up to 250 days in the event of shareholder activism or a hostile public bid that, in the opinion of the board, is fundamentally incompatible with the interests of the company and its affiliated enterprise.

A more detailed overview of national and international developments is provided in **Appendix 2**.

1.4 Outlook

Companies are increasingly expected to provide insight into how they take ESG factors and corporate social responsibility into account. The Committee is seeing a trend that content-oriented reporting is becoming increasingly important. Accordingly, there will be a greater focus in future compliance studies on the extent to which companies deliver meaningful content-oriented reporting. In line with that identified trend, the Committee will continue to devote special attention to the quality of reporting by companies in its compliance study for the 2021 financial year, which will be carried out during the last term in office of this Committee. One of the ways in which the Committee does this is by applying a 'comply and explain' approach to the topics of long-term value creation, culture and diversity in the 2021 compliance study. In the autumn of 2021, the Committee drew companies' attention to this in a letter.

In addition, the Committee calls on companies to critically assess, in a broad sense, irrespective of the above-mentioned specific focus areas in the compliance study for the 2021 financial year, to what extent they could approach their reporting on the key themes mentioned above in the Code in a less process-oriented manner and place greater emphasis on relevant content-oriented reporting. In this context, the Committee would like companies to provide thorough insight into the governance challenges lying ahead, the dilemmas the companies face and their deliberations in this connection. Chapter 3 of this report contains several examples that can help companies in such assessments.

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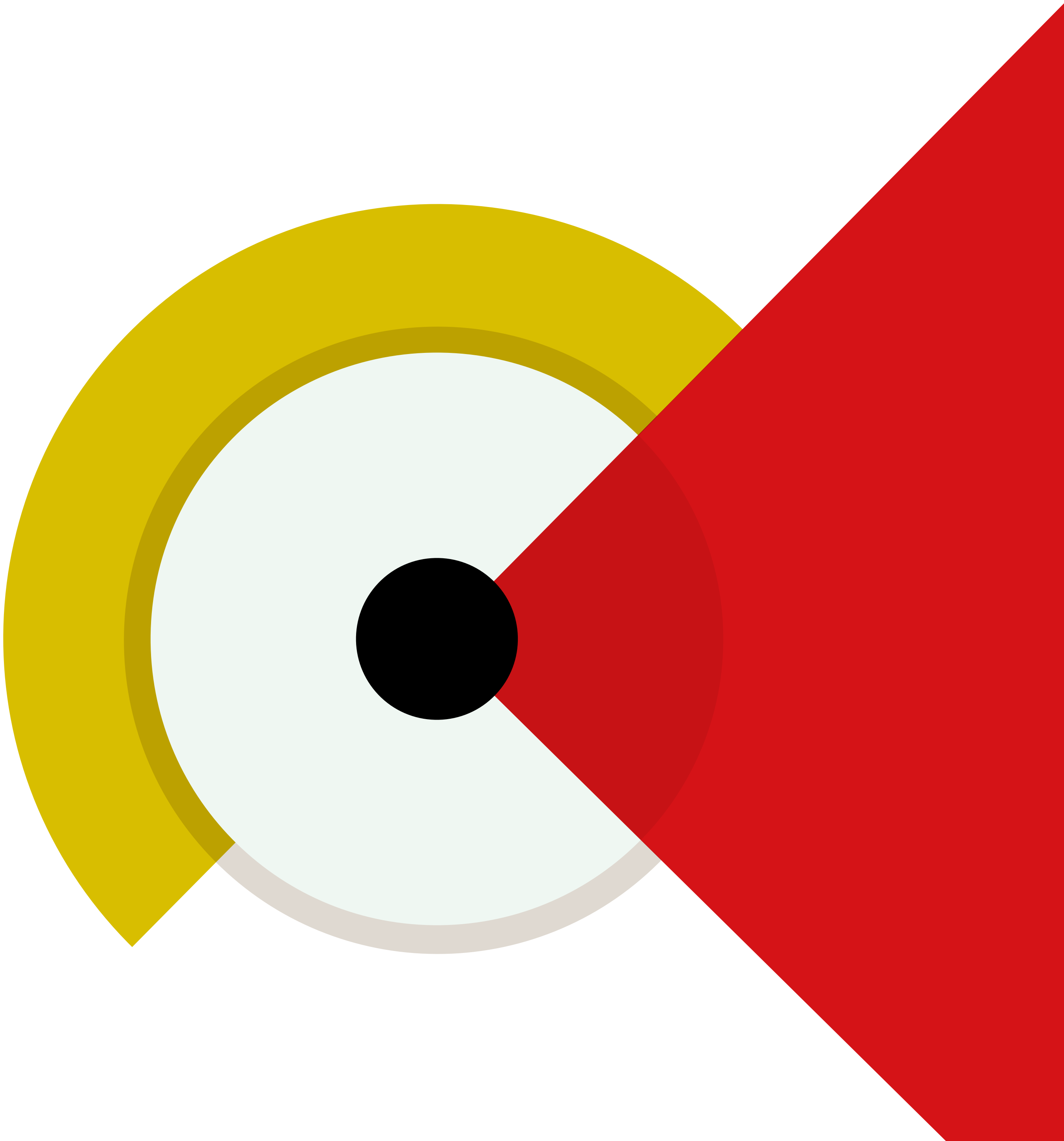
11 Bulletin of Acts and Decrees 2021, No. 537.



CHAPTER 2: COMPLIANCE STUDY

2.1 Introduction

This is the third time that the 2016 Dutch Corporate Governance Code was monitored for compliance. The Committee commissioned SEO to conduct the compliance study. Based on the results of previous compliance studies, the Committee requested SEO to place greater emphasis in its study on the quality of reporting in annual reports on five key themes in the Code, rather than on overall compliance as in previous compliance studies.

Previous compliance studies yielded persistently high compliance rates of around 99% and application rates of almost 97%, with hardly any differences between companies and a large degree of 'assumed application' (see table below). In the financial years 2019, 2018 and 2016[12], more than three quarters of the total compliance was assumed as a consequence of the Code's 'comply or explain' principle. This gave rise to the question of whether those high compliance rates are in fact sufficiently representative. In its previous Monitoring Report, the Committee had voiced some concerns about the high compliance rates. In addition, the Committee announced in that report that it would place greater emphasis on the quality of explanations in its monitoring of the 2020 financial year and that it would explore options for further tightening of the methodology used in the study.

Table 1 Overall average compliance rates in the last three compliance studies

	2019	2018	2016
Application	96.5%	96.8%	96.7%
Assumed application	*75.8%*	*75.6%*	*77.2%*
Substantiated deviation	1.9%	2.2%	2.1%
Compliance	98.4%	99.0%	98.9%
Non-compliance	1.6%	1.0%	1.1%

Therefore, the compliance study for the 2020 financial year does not measure overall compliance. SEO has performed research into compliance and the quality of explanations for a selection of reporting provisions within the themes of long-term value creation, risk management, culture, diversity and directors' remuneration. In assessing compliance, SEO assesses whether companies comply with the literal text of a reporting provision in the Code. A new, in-depth step in the study will map the quality of reporting in the annual reporting of the companies, in particular the extent to which companies make their reports more relevant in terms of content by reference to the underlying conduct-related provisions. SEO has identified the quality of explanatory information and reasoned explanations by means of a new assessment framework where reporting provisions are assessed in the broader context of corresponding conduct-related provisions. This assessment framework is included as an appendix to SEO's report on the study.

The emphasis on quality of explanatory information and reasoned explanations in the compliance study led to a higher research effort per company and per provision than in previous years. That is why it was decided to focus on a number of key themes in the Code, namely:

1. **Long-term value creation:** in particular provisions 1.1.3 (Role of the supervisory board) and 1.1.4 (Accountability of the management board);

[12] No compliance study was carried out for the 2017 financial year owing to the introduction of the revised Code and the appointment of a new Committee.

2. **Risk management:** specifically provisions 1.4.2 (Accountability in the management report) and 1.4.3 (Statement by the management board);
3. **Culture:** specifically provision 2.5.4 (Accountability regarding culture);
4. **Diversity:** specifically provisions 2.1.1 (supervisory board profile) and 2.1.6 (Accountability about diversity); and
5. **Remuneration:** specifically provision 3.4.1 (Remuneration report)

SEO also investigated other subjects (category '**Other**'), namely the organisation of the supervisory board (principle 1.3), provision 1.3.6 (Absence of an internal audit department) and provision 2.2.8 (Evaluation accountability - evaluation of the supervisory board and management board).

The results of the compliance study were obtained by means of desk research, a survey and three focus groups. The desk research examined the annual reports of companies that are within the scope of the Code. The research population for the desk research consists of 83 companies that have their registered office in the Netherlands and a listing on Euronext Amsterdam, and 30 companies that have their registered office in the Netherlands and a listing abroad only ('foreign companies'). These 30 foreign companies were selected on a sample basis from a population of 46 companies with a listing abroad. In selecting the sample, account was taken of countries, sectors and company size (measured by employees) in order to arrive at a sufficiently diverse sample. In the survey, SEO asked companies about key themes in this compliance study. Out of a total of 132 invited companies, 79 took part in the online survey. The response rate (rounded) was therefore 60%, which is lower than in other financial years (2018 financial year: 85% and 2016 financial year: 72%; monitoring of the 2019 financial year did not include a survey, in order not to overburden companies during the first period of the Covid-19 pandemic). The lower response rate for the 2020 survey was due to the inclusion of 45 foreign companies, which had not been the case for other years. Without these companies, the response rate for 2020 would be 74%. SEO engaged in dialogue in the focus groups with 16 companies to gain further insight in connection with the Committee's more finely detailed questions regarding the selected themes.

The following is an overview of the most important results that emerged from the compliance study carried out by SEO, the insights the Committee gained from these results, the Committee's recommendations to ensure compliance by companies and the follow-up steps that the Committee itself expects to take. For a detailed overview of the study results as well as an explanation of the methodology and validation of the study, the Committee refers to the SEO study report.[13]

2.2 Long-term value creation

Principle 1.1 of the Code stipulates that the management board of the company is responsible for the continuity of the company and its affiliated enterprise. The management board should focus on long-term value creation while carefully weighing the interests of all stakeholders involved. The Code then provides a number of leads for establishing a strategy for long-term value creation, but largely leaves the implementation to the companies. In the compliance study, SEO assessed compliance with provisions 1.1.3 and 1.1.4 and looked at the quality of explanations on:

- how the supervisory board is involved in the strategy to achieve long-term value creation (best practice provision 1.1.3);
- how the management board explained its view on long-term value creation and the strategy for its realisation (best practice provision 1.1.4) and how companies have implemented long-term value creation (principle 1.1); and
- how stakeholders are involved in this (Principle 1.1).

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13 Compliance with the Corporate Governance Code: Measurement for the 2020 financial year: SEO Economic Research, available at https://www.seo.nl/publicaties/monitor-nederlandse-corporate-governance-code-boekjaar-2020.

Involvement of the supervisory board in strategy to achieve long-term value creation
SEO assessed compliance with and the quality of explanations on provision 1.1.3. SEO did so on the basis of the reporting requirements arising from provision 1.1.3 (which is a combination of a conduct-related provision and a reporting provision), in the broader context of the Code (particularly principle 1.1).

Provision 1.1.3: *The supervisory board should supervise the manner in which the management board implements the long-term value creation strategy. The supervisory board should regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. In the report drawn up by the supervisory board, an account is given of its involvement in the establishment of the strategy, and the way in which it monitors its implementation.*

Compliance with provision 1.1.3 by Dutch companies was 98.8% (in the 2019 financial year: 99.4%).

Table 2 Rates of compliance with provision 1.1.3

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**98.2%**	**0.6%**	**1.2%**
AEX	*100.0%*	*0.0%*	*0.0%*
AMX	*100.0%*	*0.0%*	*0.0%*
AScX	*100.0%*	*0.0%*	*0.0%*
Local	*93.7%*	*2.2%*	*4.2%*
Listing abroad	86.7%	0.0%	13.3%

Source: SEO Economic Research
Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

The extent to which companies report on a content-oriented basis on this provision varies.

- Just over half of the companies provide a content-oriented description in the annual report of the role of the supervisory board in supervising long-term value creation. They mention, for example, which themes the supervisory board discussed and which areas it focused on during the meetings. The other companies describe the involvement of the supervisory board solely in a process-oriented manner. This group of companies reports on the frequency and form of meetings, but not their content. The Committee recognises the differences in reporting on this subject described by SEO. This divide was also identified in the Monitoring Report on the 2019 financial year. Notably, there are major differences in the extent to which the various companies provide a content-oriented description of the role of the supervisory board in supervising long-term value creation (AEX: 89%, AMX: 86%, AScX: 55%, local: 39%, foreign: 43%).
- Approximately half of the companies describe the results of the supervision, such as the resolutions that were adopted and the outcomes resulting from the focus areas of the supervisory board. Many of the companies do not do so, meaning there is less transparency on how the supervision led to concrete actions. Again, there are major differences between companies (AEX: 68%, AMX: 52%, AScX: 60%, local: 35%, foreign: 43%).
- Furthermore, in the report of the Supervisory Board, 20% of the companies clearly state the aspects of strategy the company will need to focus on more closely in the coming period.

The results of the survey show that at most companies, the management board discusses the strategy for long-term value creation with the supervisory board every three months. Around one third of the companies state that they do so more frequently.

The focus groups revealed that companies seek to present a united front in their external reporting and do not want to disclose differences of opinion between the management board and the supervisory board in their reporting. The companies with a listing abroad are particularly cautious in this connection. According to them, transparency can lead to large claims for compensation and is not conducive to mutual trust between members of the management board and members of the supervisory board. Companies did believe however that there was room for improvement and that they could provide more detail in their reporting. For example, the Supervisory Board could identify the subjects to which particular attention has been paid.

Explanation of the management board on view on long-term value creation, strategy for its realisation and implementation

Provision 1.1.4: *In the management report, the management board should give a more detailed explanation of its view on long-term value creation and the strategy for its realisation, as well as describing which contributions were made to long-term value creation in the past financial year. The management board should report on both the short-term and long-term developments.*

In its assessment of the quality of explanations on this reporting provision, SEO looked at whether a company relates its view on long-term value creation to the strategy to realise this view. SEO also assessed whether the aspects that the company should take into account when developing the strategy (best practice provision 1.1.1) are also discussed in the explanation on strategy. Those aspects are as follows:

i. *the strategy's implementation and feasibility;*
ii. *the business model applied by the company and the market in which the company and its affiliated enterprise operate;*
iii. *opportunities and risks for the company;*
iv. *the company's operational and financial goals and their impact on its future position in relevant markets;*
v. *the interests of the stakeholders; and*
vi. *any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.*

SEO reaches the following conclusions. When considering compliance with the literal text of provision 1.1.4, the compliance rate is 97.6% (in the 2019 financial year: 98.9%). Most companies explain their view on long-term value creation in their annual report, as well as the strategy for its realisation, and which contributions were made to long-term value creation in the past financial year.

Table 3 Rates of compliance with provision 1.1.4

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**97.6%**	**0.0%**	**2.4%**
AEX	*100.0%*	*0.0%*	*0.0%*
AMX	*100.0%*	*0.0%*	*0.0%*
AScX	*100.0%*	*0.0%*	*0.0%*
Local	*91.3%*	*0.0%*	*8.7%*
Listing abroad	96.7%	0.0%	3.3%

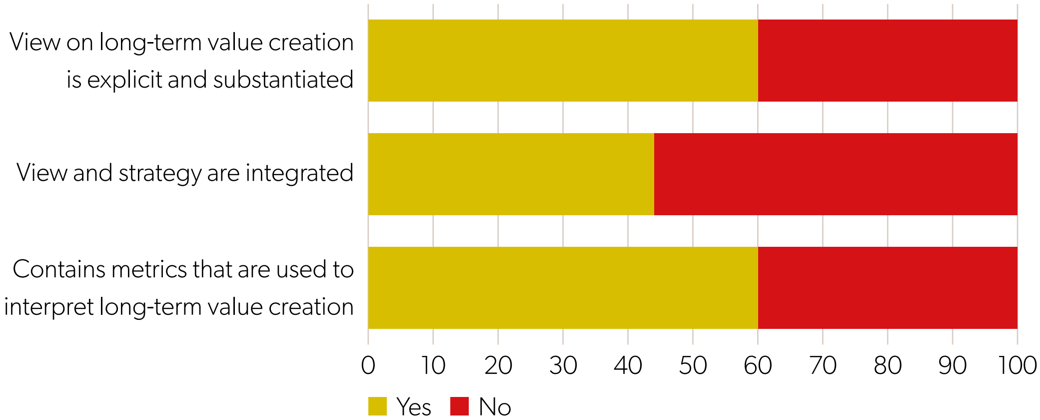
Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

The in-depth desk research shows a more nuanced picture and shows that companies render account in various ways on the view on long-term value creation, the strategy for its realisation and which contributions were made to it.

- Only 60% of the companies clarify their view on long-term value creation by further describing and substantiating that view. For the other companies, this description often remains implicit and in some cases long-term value creation is not even mentioned.
- More than half of the companies describe strategy and long-term value creation separately, while these two topics are clearly interrelated in the Code (see Figure 1).
- Just over half of the companies state the criteria they use to operationalise long-term value creation.
- 66% of the companies discuss the implementation and feasibility of the strategy to realise the view on long-term value creation and 4% provides a partial explanation.
- 81% of the companies describe the relationship between the strategy, the business model and the market in which the company operates.
- 65% of the companies discuss in further detail the opportunities and risks in relation to the strategy and 3% provides a partial explanation.
- About half of the companies describe their own strategic objectives.
- Companies often refer to corporate social responsibility (CSR) as part of the strategy.

Figure 1 Long-term view on value creation and strategy often described separately



Source: SEO Economic Research (2021)

Note: This figure is based on the annual reports of 113 listed companies.

Supplementing the desk research, SEO asked the companies in the survey how they interpret the concept of long-term value creation. The results of the survey for this are summarised below. A more comprehensive description of the results is provided in the SEO report.

- 60% of the companies state that they look at **financial aspects** in the interpretation of the concept of long-term value creation (for example, the growth of annual turnover, an EBITDA margin or minimising operating expenses).
- 40% of the companies designate **core values**, such as reliable, responsible, ethical, customer-oriented, market player and collaboration.
- 30% of the companies include **environmental aspects** in implementing the concept of long-term value creation, such as increasing the lifespan of products, ensuring that products are recyclable, consuming fewer raw materials, or reducing or offsetting CO2 emissions in production processes. In some cases, targets or goals are also mentioned in that connection.
- In implementing the concept of long-term value creation, 35% of the companies specify who the **stakeholders** are. Investors, employees and customers are mentioned most often here. In addition, society, suppliers and partners are referred to as well. This description often states that value is created for these stakeholders, but does not explicitly state what companies mean by that.
- 10% of the companies define the **timeframe** aimed at in the view on long-term value creation.

In addition, respondents were asked in the survey what non-financial indicators they use to evaluate the progress and realisation of the long-term strategy. SEO reports that respondents mainly use indicators that can be divided into the following themes: **environmental footprint** (including reduction of the CO2 footprint, extent to which products are recyclable), **staff** (e.g. gender diversity and different nationalities on the management board and supervisory board and among second-tier management and employee engagement), innovation (e.g. exploration), **society/customers** (including Net Promotor Score), **company** (e.g. number of branches) and **suppliers** (feedback from suppliers). Most non-financial indicators relate to the environmental footprint and staff. A comprehensive overview of all non-financial indicators mentioned by the respondents is given in the SEO report.

SEO asked companies in the survey whether they report in accordance with an *integrated reporting* method.[14] The results of the survey show that the majority (51 of the 79 companies taking part in the survey) use an integrated reporting method. The majority (20 out of the 28 companies) of the companies that do not use an integrated reporting method state that their organisation does intend to do so in the future. The main reason given as to why integrated reporting is not yet used is that, given the nature and/or size of the company, it is not opportune do so at present.

During the focus groups, the companies stated that the theme of sustainability is becoming increasingly important. In addition, companies discussed that certain elements should be reflected in the long-term view on value creation, namely the identification of stakeholders and objectives. In their view, designating a timeframe is not part of this: "as we believe that long-term value creation is a continual process we do not state any timeframes in our view."

Stakeholder involvement

Various principles and best practice provisions in the Code refer to stakeholders.

Principle 1.1: *"The management board focuses on long-term value creation for the company and its affiliated enterprise, and takes into account the stakeholder interests that are relevant in this context."*

Provision 1.1.1: *"When developing the strategy, attention should in any event be paid to the following: (…) v. the interests of the stakeholders"*

Principle 2.4: *"The management board and the supervisory board should ensure that decisions are made in a balanced and effective manner whilst taking account of the interests of stakeholders."*

SEO has reviewed whether companies provide insight on how and which stakeholders are involved and how their interests are weighed. SEO presents the following findings in its study report.

- 62% of the companies report on stakeholders' interests in relation to the strategy. For example, companies describe the relevance of stakeholders to the company, their expectations and interests, and how these translate into the strategy. In this context, there are major differences in reporting by the various companies (AEX: 95%, AMX: 86%, AScX: 80%, local: 26%, foreign: 40%).
- 60% of the companies explicitly state who the stakeholders are in the annual report. The most frequently mentioned stakeholders play a direct role in primary business processes and/or have an interest in financial results, such as employees, shareholders, customers and suppliers. Indirect stakeholders (i.e. stakeholders with no direct connection to the activities of the company, but who are impacted by the company and its activities) are mentioned less frequently. For example, only one third of the companies

[14] SEO defines integrated reporting as "summary reporting on how organisations operate sustainably and how strategy, governance, performance and prospects generate (social) value for the short, medium and long term."

designate local communities, society, civil society organisations and the environment in their annual reporting.

The companies were asked in the survey which stakeholders they involve in developing their view on long-term value creation. The results of the survey are similar to the results of the desk research which examined which stakeholders were mentioned most frequently. Most respondents involve shareholders, customers and employees in developing the view on long-term value creation. The government is involved by two out of three respondents, but there are significant differences between the different groups of companies here. For example, 89% of the AEX companies state that they involve the government, while only 30% of locally listed companies do so.

In addition to designating the various stakeholders, the Code also requires attention to be paid to the interests of these stakeholders. SEO has assessed how companies report on this.

- 56% of the companies do not report on the interests of the various stakeholders.
- Virtually none of the companies explain how they deal with conflicting interests of different stakeholders and what their deliberations are in this connection.
- Slightly less than half of the companies describe how interaction with stakeholders takes place, which themes are central in that context and what the outcomes of the interaction with stakeholders are.

The survey also asked the companies *how* the various stakeholders are involved in developing the view on long-term value creation. The SEO report contains an overview of the different ways in which this is done.

View of the Committee

Involvement of the supervisory board in strategy to achieve long-term value creation
Almost all companies describe in their annual report *that* the supervisory board is involved in the establishment and supervision of the strategy. In their reporting, companies often describe processes, such as the frequency of consultation. Companies can provide more insight into the topics to which the supervisory board paid special attention and why it paid special attention to these topics. In this way they can increase the meaningfulness of their reporting. Companies are not expected to disclose the precise impact of the supervisory board on the strategy for long-term value creation.

Explanation of the view on long-term value creation - link with strategy
Notably, more than half of the companies describe the topics strategy and long-term value creation separately, while these two topics are interrelated in the Code. The Committee is calling on companies to establish a clear link between these two topics in their reporting.

Stakeholders
Based on the in-depth SEO study, the Committee concludes that there is room for improvement in reporting on stakeholder involvement and their interests, in particular in relation to the strategy for long-term value creation. The basic principle should be that companies provide insight in their annual reports into the stakeholders that are relevant to the company and their interests, the manner in which they are involved and how this translates into the strategy. The Committee is examining the extent to which the provisions on stakeholders in the Code can be revised.

2.3 Risk management

Principle 1.2 of the Code requires the company to have adequate internal risk management and control systems in place. The management board is responsible for identifying and managing the risks associated with the company's strategy and activities. According to principle 1.4 of the Code, the management board should render account of the effectiveness of the design and the operation of the internal risk management and control systems. In its study, SEO has assessed how companies render account on risk management. To that end, SEO reviewed how companies comply with provisions 1.4.2 (accountability for risk management) and 1.4.3 (statement by the management board on risk management) and the quality of explanations. The review of the quality of explanations was carried out in the context of the associated conduct-related provisions, namely principle 1.2 (risk management) and provisions 1.2.1 (risk assessment), 1.2.2 (implementation of internal risk management and control systems) and 1.2.3 (monitoring of effectiveness of internal risk management and control systems).

Risk management accountability

Provision 1.4.2: *In the management report, the management board should render account of:*

i. *the execution of the risk assessment, with a description of the principal risks facing the company in relation to its risk appetite. These risks may include strategic, operational, compliance and reporting risks;*
ii. *the design and operation of the internal risk management and control systems during the past financial year;*
iii. *any major failings in the internal risk management and control systems which have been observed in the financial year, any significant changes made to these systems and any major improvements planned, along with a confirmation that these issues have been discussed with the audit committee and the supervisory board; and*
iv. *the sensitivity of the results of the company to material changes in external factors.*

Principle 1.2: *The company has adequate internal risk management and control systems in place. The management board is responsible for identifying and managing the risks associated with the strategy and the company's activities.*

Provision 1.2.1: *The management board should identify and analyse the risks associated with the strategy and activities of the company and its affiliated enterprise. It is responsible for establishing the risk appetite, and also the measures that are put in place in order to counter the risks being taken.*

Provision 1.2.2: *Based on the risk assessment, the management board should design, implement and maintain adequate internal risk management and control systems. To the extent relevant, these systems should be integrated into the work processes within the company and its affiliated enterprise, and should be familiar to those whose work they are relevant to.*

Provision 1.2.3: *The management board should monitor the operation of the internal risk management and control systems and should carry out a systematic assessment of their design and effectiveness at least once a year. This monitoring should cover all material control measures relating to strategic, operational, compliance and reporting risks. Attention should be given to observed weaknesses, instances of misconduct and irregularities, indications from whistleblowers, lessons learned and findings from the internal audit function and the external auditor. Where necessary, improvements should be made to internal risk management and control systems.*

93.4% of Dutch companies render account of risk management in accordance with provision 1.4.2 of the Code and 1.5% deviate from this, stating reasons (Table 4). As a result, the total compliance (94.9%) largely corresponds to compliance for the 2019 financial year (96.8%).

Table 4 Rates of compliance with provision 1.4.2

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**93.4%**	**1.5%**	**5.1%**
AEX	*100.0%*	*0.0%*	*0.0%*
AMX	*98.8%*	*0.0%*	*1.2%*
AScX	*97.5%*	*0.0%*	*2.5%*
Local	*79.3%*	*5.4%*	*15.2%*
Listing abroad	83.3%	2.5%	14.2%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

Risk Assessment

Pursuant to provision 1.4.2(i), the management board should render account in the management report of the execution of the risk assessment, with a description of the principal risks facing the company in relation to its risk appetite. According to provision 1.2.1, the management board is responsible for establishing the risk appetite, and also the measures that are put in place in order to counter the risks being taken. SEO found the following in its in-depth analysis of the quality of explanations:

› Most companies provide a content-oriented explanation of the risks. 88% of the companies distinguish between various risk categories *(strategic, operational*, *compliance*, *financial*, *climate change*) and 95% of the companies provide a substantiation of the risks that the company has identified.
› 67% of the companies expressly refer to the risk appetite in the annual report. Of the 79 companies that explicitly refer to the risk appetite, 56% provide a content-oriented substantiation for the risk appetite, while 24% do so in part.
› Companies usually report that they implement mitigating measures to limit the impact of the various risks. Most of the companies (64%) also explain why these mitigating measures are effective and appropriate. 24% provide a partial explanation on this and 12% do not do so.

In addition, SEO asked the companies in the survey what risks are part of the company's risk profile and which risks companies consider to be the most important in relative terms. The respondents stated that they consider operational, strategic and financial risks to be the most important. These are followed by: cyber risks, compliance risks, risks of disruption due to new technologies, people risk and reputational risks and external environmental risks.

Internal risk management and control systems

Provisions 1.4.2(ii), 1.4.2(iii) and 1.2.3 contain best practices relating to the risk management and control systems. The management board is expected to render account in the management report of the design and operation of the internal risk management and control systems during the past financial year and any major failings in the internal risk management and control systems which have been observed in the financial year, any significant changes made to these systems and any major improvements planned, along with a confirmation that these issues have been discussed with the audit committee and the supervisory board. Pursuant to provision 1.2.3, the management board should monitor the operation of the internal risk management and control systems and should carry out a systematic assessment of their design and effectiveness at least once a year. SEO reports the following in its in-depth analysis of the quality of explanations:

› 72% of the companies provide a content-oriented substantiation of the extent to which the internal risk management and control systems are appropriate to the risks identified.
› Companies often state that no failings were identified during the financial year in internal risk management and control systems. This is in line with the compliance study for the 2019 financial year, where SEO had found the same thing.

› 76% of the companies describe in the management report how the systematic assessment of risk management required to be carried out at least once a year was performed, 14% do so in part. 40% of the companies describe what has been taken into account in the annual systematic risk management assessment and approximately one quarter do so in part. 44% of the companies describe what improvements have been implemented as a result of this assessment and 13% do so in part. Consequently, reporting on this assessment is incomplete to some extent in these areas. In addition, approximately three quarters of the companies provide further detail on how the quality of risk management is assured outside the annual assessment, for example by means of stress tests, external advice and a description of the ongoing activities of the risk committee.

In the survey, SEO asked how often companies assess the design and operation of the internal risk management and control systems. 95% of the respondents assess the design and operation of the internal risk management and control systems at least once a year.

Impact of strategy and responsibility within the management board
Pursuant to principle 1.2, the management board is responsible for identifying and managing the risks associated with the company's strategy and activities. Three quarters of the companies report on the impact of the risks for the strategy. In the in-depth analysis of the quality of explanations, SEO found that 61% of companies state clearly in their reporting how responsibility for identifying and managing risks is organised within the management board and 19% do this in part partly/implicitly.

During the focus groups, companies stated that they consider it more valuable to look at the joint responsibility of the management board and the supervisory board, or at the way in which the mitigation of specific risks is implemented within the company. However, the companies did also state that joint sessions of the management board and the supervisory board on risk appetite are very valuable to keep everyone involved.

Statement by the management board on risk management
Provision 1.4.3: *The management board should state in the management report, with clear substantiation, that:*
i. *the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;*
ii. *the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;*
iii. *based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and*
iv. *the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.*

96.4% of the Dutch companies comply with provision 1.4.3 (see table below). This is an improvement compared with the 2019 financial year (91.7%).

Table 5 Rates of compliance with provision 1.4.3

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**95.2%**	**1.2%**	**3.6%**
AEX	*94.7%*	*0.0%*	*5.3%*
AMX	*100.0%*	*0.0%*	*0.0%*
AScX	*100.0%*	*0.0%*	*0.0%*
Local	*87.0%*	*4.3%*	*8.7%*
Listing abroad	67.5%	4.2%	28.3%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

As can be seen from the compliance figures above, almost all companies, with the exception of the companies listed abroad, provide a statement in accordance with provision 1.4.3 (also known as 'in-control statement'). Most companies also provide substantiation for this. Only 12% do not do so, and most of these are companies listed abroad. Notably, there are significant differences in the manner in which companies substantiate the statement (directly or by referring to the risk section in the annual report):

Table 6 Quality of explanation for provision 1.4.3

Question	Answer	Total	AEX	AMX	AScX	Local	Foreign
Does the management board provide substantiation for this statement by means of a reference to (relevant passages in) the annual report or is more direct substantiation provided?	Direct substantiation	17.7%	10.5%	19.0%	5.0%	4.3%	40.0%
	Reference	68.1%	89.5%	71.4%	85.0%	91.3%	23.3%
	Both	1.8%	0.0%	4.8%	5.0%	0.0%	0.0%
	No substantiation	12.4%	0.0%	4.8%	5.0%	4.3%	36.7%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

View of the Committee

Risk management accountability (1.4.2)

The Committee's overall impression is that companies' reporting on risk management is sufficiently substantive. The Committee does see room for improvement in terms of explicitly referring to the risk appetite and providing more substantive substantiation in this connection. It is advisable to describe the identified risks and the risk appetite for each category, accompanied by a thorough explanation. Also, it is recommended in reporting on risk management to clearly establish the link with the strategy for long-term value creation. Furthermore, in their reports on the assessment of the internal risk management and control systems, companies can provide more insight into what this assessment is based on and the improvements implemented as a result of that assessment. The Committee calls on companies to pay more attention to the above-mentioned points in future annual reports.

Statement by the management board (1.4.3)

With the exception of the management boards of the companies listed abroad, almost all management boards provide a statement in accordance with the literal text of provision 1.4.3. Most companies also provide substantiation for this statement, but often do so by referring to the risk section. In many cases, according to the Committee, this is insufficient. The Committee recommends to include a substantive reasoning in the statement itself.

2.4 Culture

Culture can be described as the values that implicitly and explicitly inform employees actions and the resulting behaviour. According to the Code, the management board should adopt values that contribute to a culture focused on long-term value creation, and in doing so must pay attention to, among other things, the strategy and the business model, the environment in which the enterprise operates, the existing culture within the enterprise and whether it is desirable to implement any changes in this (provision 2.5.1). The Code is not prescriptive as to exactly what the culture is or should be. It is up to the management board to create the company's culture. When doing so, the existence of different subcultures within the enterprise should be taken into account by the management board. Provision 2.5.4 contains important reporting requirements on the theme of culture.

Provision 2.5.4: *In the management report, the management board should explain:*
i. *the values and the way in which they are incorporated in the company and its affiliate enterprise; and*
ii. *the effectiveness of, and compliance with, the code of conduct* (as referred to in provision 2.5.2).

In the 2019 Monitoring Report, the Committee called on companies to provide an explanation in their 2020 report on: (i) the selected values *(what)*; (ii) the reason for selecting these values (*why*) (to be linked to long-term value creation); (iii) how these values are incorporated within the organisation*(how)*; (iv) the persons who have been assigned roles and responsibilities for this *(who)*; and (v) the effectiveness of and compliance with the code of conduct.

SEO has assessed compliance with provision 2.5.4 and charted how companies describe culture in their management report. SEO carried out the assessment of the quality of the explanations given on the basis of provision 2.5.4 in the broader context of other provisions of the Code, for which provision 2.5.1 (management board's responsibility for culture) is of particular importance.

Based on the customary methodology used in the study, SEO reports that 90.4% of the companies listed in the Netherlands complies with provision 2.5.4 (Table 7). This is slightly higher than the compliance rate of 87.3% in the previous Monitoring Report.

Table 7 Compliance rates for provision 2.5.4

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**90.4%**	**0.0%**	**9.6%**
AEX	*97.4%*	*0.0%*	*2.6%*
AMX	*100.0%*	*0.0%*	*0.0%*
AScX	*90.0%*	*0.0%*	*10.0%*
Local	*76.1%*	*0.0%*	*23.9%*
Listing abroad	81.7%	0.0%	18.3%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

SEO comes to the following findings in its in-depth analysis of the quality of explanations for this provision:

› Half of the companies explain why the values are appropriate for the company and how these values contribute to long-term value creation. However, in many cases (33.6%), this description is partial or implicit. It is notable that the AEX companies (84%), AMX companies (71%) and AScX companies (75%) describe this more often (explicitly or partially/implicitly) than the locally listed companies (30%) and foreign companies (33.3%). Similarly, in the monitoring regarding the 2019 financial year, SEO found that the connection between the values and long-term value creation was not discussed.

› Few companies explain why the *manner of incorporation* of the values is appropriate. It is worth noting that the largest group of companies that do provide an explanation of this (either explicitly or implicitly) are AEX companies (45%) and foreign companies (50%).

› Companies often fail to render account on the subcultures within the company. 10% of the companies explicitly report on this and 35% do so partially or implicitly.

› In the report, 27% of the companies state the roles and responsibilities of various actors within the company in safeguarding the values and the operation of the code of conduct and 33% of the companies do this partially or implicitly.

› 9% of the companies illustrate in their reporting how the management board encourages conduct that is in keeping with the values and how the management board leads by example, and 8% of the companies do this partially or implicitly.

- 22% of the companies explicitly relate the values to the strategy and the business model in their reporting and 28% of the companies do so implicitly or partially. There are major differences between the AEX, AMX, AScX, local and foreign companies in this regard (AEX: 79%, AMX: 52% AScX: 63%, local: 30%, foreign: 37%). The companies that link their values to their strategy and business model describe how the strategy is in line with the values, the concrete actions and how the business model has been adapted accordingly. In the case of implicit descriptions, the strategy is often said to be aligned with the values, but it is not made clear how this is achieved.

During the focus groups, companies stated that they choose their values for a longer period of time than their strategy. Some companies indicated that they aim to consider the Code as a whole, but that in practice they sometimes end up reviewing individual provisions and ensuring that their reporting complies with them. One company stated that it welcomed the opportunity to re-describe the culture in the annual report, as this allowed everything to be done in a single process. According to the companies in the focus group, this was preferable to repeatedly having to make small changes. The companies have different perspectives on linking culture to long-term value creation. Some companies noted that they had no difficulty in linking the culture to the concept of long-term value creation. To other companies, doing so did not make sense.

Furthermore, SEO asked companies in the survey how they pay attention to culture. Most respondents (80% - 90%) pay attention to culture by discussing it in the management board and the supervisory board, by *'leading by example'* and as part of striving for a safe working environment. Approximately 30% request input from external stakeholders in creating the culture of the company, and among approximately 50% of respondents it is part of the remuneration policy. Compared with the survey conducted for the 2018 financial year, companies appear to pay more attention to their culture. It is striking that only three quarters of the companies state that they pay attention to culture as part of the view on long-term value creation. These companies indicate that safeguarding a culture that is closely aligned with the view on long-term value creation is a permanent focus area for the management board and the supervisory board. One way in which they do this is by involving the management in, for example, the application procedure of all candidates who apply for a position within the company.

In addition, SEO reviewed the culture programme in the survey. At 56.4% of respondents only the management board participates in the culture programme, while at the other respondents the supervisory board participates in that programme as well. In this context, SEO also asked the companies how the effectiveness of their culture programme is monitored. Some respondents stated that they do not measure this, but do intend to do so in the future. Other respondents indicated it was not opportune to monitor this because of the limited size of the organisation. The respondents who do monitor the effectiveness of their culture programme do so in various ways. For example they name, the staff turnover *(exit interviews*) and the composition of the workforce are monitored, periodic surveys are carried out among all employees, the number of violations of the Code of Conduct is monitored, statistics such as the number of sick employees and customer feedback (NPS) are tracked, and the number of training courses followed, or incidents in the workplace are considered.

View of the Committee

The Committee reiterates its earlier appeal to companies to pay explicit attention to creating a culture aimed at long-term value creation. This is in line with the social trend to focus increasingly on corporate social responsibility, which must not be underestimated. This can be done, for example, by setting values, behaviour (including the 'tone at the top'), remuneration systems and by placing more emphasis on culture and behaviour when evaluating the management board and the supervisory board.

The Committee's overall impression is that most companies are working to report thoroughly on culture and the underlying values, but the Committee sees room for improvement. Reporting on *how* a culture is created that focuses on long-term value creation and the impact of this culture are expected to provide an impetus. For example, companies could provide an explanation of the actions taken and the results achieved by them, what values were selected, why those values were selected, why those values are appropriate and how those values contribute to a culture aimed at long-term value creation.

The Committee is considering further clarifying this when revising the Code. Such a revision would be aimed primarily at encouraging a more holistic approach to thinking and reporting on values, culture and long-term value creation.

2.5 Diversity

Principle 2.1 requires the management board and the supervisory board to be composed such that the requisite expertise, background, competencies and – as regards the supervisory board – independence are present for them to carry out their duties properly. It also stipulates that the size of these two bodies should reflect these requirements. In connection with this principle, SEO has researched the compliance with provisions 2.1.1 (profile) and 2.1.6 (accountability about diversity) and the quality of explanations pertaining to these provisions in the context of principle 2.1 (composition and size) and provision 2.1.5 (diversity policy).

Profile

Provision 2.1.1 of the Code stipulates: *The supervisory board should prepare a profile, taking account of the nature and the activities of the enterprise affiliated with the company. The profile should address:*

i. *the desired expertise and background of the supervisory board members;*
ii. *the desired diverse composition of the supervisory board, referred to in best practice provision 2.1.5;*
iii. *the size of the supervisory board; and*
iv. *the independence of the supervisory board members.*

Dutch companies' compliance with provision 2.1.1 is 98.6% (Table 8). This is higher than in the previous financial year (92.7%).

Table 8 Rates of compliance with provision 2.1.1

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**95.8%**	**2.8%**	**1.4%**
AEX	*98.2%*	*0.0%*	*1.8%*
AMX	*99.2%*	*0.0%*	*0.8%*
AScX	*100.0%*	*0.0%*	*0.0%*
Local	*87.1%*	*10.0%*	*2.9%*
Listing abroad	86.7%	2.8%	10.6%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

The quality of reporting on this provision varies.

- 20% of the companies provide an explicit explanation on the desired expertise, background, composition and competencies referred to in the profile. In addition, a large group of companies (58%) describe this implicitly or partially.
- In the profile, more than two thirds of the companies provide an explanation on the various aspects of diversity, such as nationality, age, gender, educational background and professional experience. Again, there are differences between the AEX, AMX, AScX, local and foreign companies (AEX: 89%, AMX: 57%, AScX: 80%, local: 52% and foreign: 63%).
- Most companies (88%) do not describe any weighting of diversity aspects. A number of companies continue to assert that skills and experience are more important than diversity aspects, thereby applying an implicit weighting.

Diversity policy

Provision 2.1.6: *The corporate governance statement should explain the diversity policy and the way that it is implemented in practice, addressing:*

i. *the policy objectives;*
ii. *how the policy has been implemented; and*
iii. *the results of the policy in the past financial year.*

If the composition of the management board and the supervisory board diverges from the targets stipulated in the company's diversity policy and/or the statutory target for the male/female ratio, if and to the extent that this is provided under or pursuant to the law, the current state of affairs should be outlined in the corporate governance statement, along with an explanation as to which measures are being taken to attain the intended target, and by when this is likely to be achieved.

Compliance with provision 2.1.6 is 83.4%, of which 12.5% represents substantiated deviation (Table 9). This is lower than the result in the compliance study for the 2019 financial year (89.9%). In that study, the scores for non-compliance and substantiated deviation (10.1% non-compliance and 6.2% substantiated deviation) for provision 2.1.6 were also relatively high.

Table 9 Compliance with provision 2.1.6

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**70.8%**	**12.5%**	**16.6%**
AEX	*88.4%*	*9.5%*	*2.1%*
AMX	*79.0%*	*12.4%*	*8.6%*
AScX	*73.0%*	*18.0%*	*9.0%*
Local	*47.0%*	*10.4%*	*42.6%*
Listing abroad	42.7%	22.7%	34.7%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

Pursuant to provision 2.1.5, the company's diversity policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background. In this context, SEO has reviewed accountability on diversity.

- 64% of the companies provide insight into the aspects on which the company strives for diversity (e.g. gender, age, ethnic background, expertise) and 10% of the companies provide partial insight into this. There are differences between the companies in this respect (AEX: 95%, AMX: 81%, AScX: 75%, local: 49%, foreign: 43%). Companies usually do not substantiate why they strive for these aspects in particular (72%) and if they do substantiate this, the explanation is often incomplete or implicit (16%). Slightly less than half of the larger companies (AEX and AMX companies) provide further substantiation. Less than one quarter of the smaller companies do so.

› At more than half of the companies, the diversity objectives can be measured quantitatively. AEX, AMX and AScX companies (AEX: 79%, AMX:67%, AScX: 85%) much more often report quantitatively measurable objectives than companies listed locally or abroad (local: 22%, foreign: 30%). If objectives are not quantitatively measurable, general objectives for diversity are often described but no targets are stated. The objectives in the diversity policy are generally not substantiated, with the exception of a reference to the (previous applicable) statutory target of 30% women in board positions. Also, according to the monitoring study for the 2019 financial year this was a frequently stated target.
› The scope of the diversity policy differs from one company to another. Some companies expand also have a diversity policy for second-tier management (7%). 49% of the companies have a diversity policy for the entire company.

SEO asked the respondents in the survey about the relative weighting of the various aspects of diversity with regard to the composition of the management board, the supervisory board and the executive committee, if any, of the company. The results of the survey show that competencies, expertise and experience are especially decisive (see Table 10 below).

The focus groups with the companies listed in the Netherlands revealed that diversity is a much-discussed topic within the company. However, *why* diversity should be pursued is not often discussed. Companies stated that they were pleased to see the Code pushing them to think about diversity. One company was more critical and wondered why stating goals is insufficient. Some of the companies asked the Committee whether best practices could be defined. In the focus group it was also noted that effective reporting requires specific substantiation of the diversity policy and targets. At present, companies still report mainly on diversity in terms of diversity results achieved and diversity relationships. There is room here for more meaningful reporting. The companies listed abroad stated that the diversity objectives are abundantly clear and do not require any explanation. Other aspects of diversity include, in particular, a cultural theme which is often regionally specific. Lastly, they note that the Code only refers to diversity in the management board, but that diversity at the organisational level is also important.

Table 10 Competences and expertise are decisive in determining the composition of the management board

Aspect	**Average ranking** (interpretation: the lower the number, the greater the importance)
- Ethnic background	7.4
- Age	7.1
- Nationality	7.0
- Training	5.9
- Development opportunities / potential	5.5
- Gender	4.9
- Experience	2.9
- Expertise	2.3
- Competencies	2.1

Source: SEO Economic Research (2021) - the table above is based on 79 observations

Question: How important are the various elements of the diversity policy with regard to the composition of the management board, the supervisory board and the executive committee, if any, of the company? Please rank the following elements in order of importance. The more important an aspect is, the higher you should place it.

All companies have been asked to indicate the level of expertise of the members of the supervisory board in various areas. The results show that most organisations believe that the supervisory board has very extensive expertise in the field of risk management. According to the respondents, the least knowledge is available within the supervisory board in the field of cybersecurity.

View of the Committee

The results of the study show that companies often seem to view the topic of diversity as a mandatory exercise, in their reporting they do not go in much detail about diversity and do not explain why diversity needs to be pursued. Accordingly, companies generally do not substantiate their objectives in the diversity policy, or only do so to a limited extent. It is also notable that companies pay particular attention to gender in connection with diversity, whereas diversity is wider than gender. If companies do mention an objective in their own diversity policy, this is often an old statutory target with regard to the male/female ratio. The Committee had already observed last year that compliance with accountability on diversity was too low. The Committee has the same concerns this year and reiterates its call to place the theme of diversity higher on the agenda in a broad sense. It is hoped that the Balanced Male-Female Ratio Act (*wet evenwichtiger man/vrouw verhouding*) will contribute to improving gender diversity but the Committee emphasises that diversity is a broader concept. The Committee is working on a revision of the diversity provisions in the Code.

2.6 Remuneration

Principle 3.4 stipulates that in the remuneration report, the supervisory board should render account of the implementation of the remuneration policy in a transparent manner. The report should be posted on the company's website. SEO's assessment specifically focussed on provision 3.4.1 (remuneration report).

Provision 3.4.1 states that the remuneration committee should prepare the remuneration report and that this report should in any event describe, in a transparent manner, in addition to the matters required by law:

i. *how the remuneration policy has been implemented in the past financial year;*
ii. *how the implementation of the remuneration policy contributes to long-term value creation;*
iii. *that scenario analyses have been taken into consideration;*
iv. *the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year;*
v. *in the event that a management board member receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and*
vi. *in the event that a current or former management board member receives a severance payment, the reason for this payment.*

SEO has reviewed how companies comply with provision 3.4.1 and charted how companies provide an explanation on remuneration in their management report. SEO conducted this assessment on the basis of provision 3.4.1 in the broader context of other relevant provisions of the Code, with a particular focus on principle 3.1 (remuneration policy – management board) and provision 3.2.2 (management board members' views on their own remuneration).

The overall compliance by Dutch companies with provision 3.4.1 is 93% (Table 11). This is lower than the compliance for the 2019 financial year (95.2%).

Table 11 Rates of compliance with provision 3.4.1

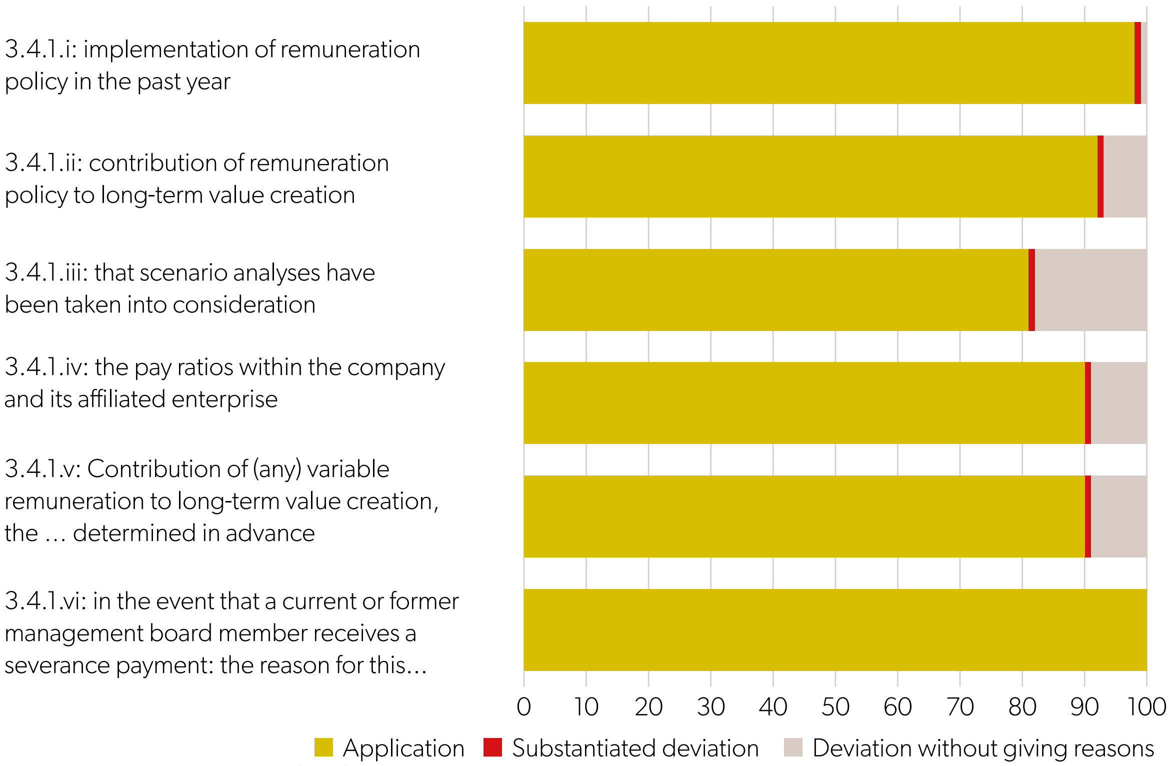
	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**91.8%**	**1.2%**	**7.0%**
AEX	*100.0%*	*0.0%*	*0.0%*
AMX	*100.0%*	*0.0%*	*0.0%*
AScX	*97.0%*	*0.0%*	*3.0%*
Local	*73.1%*	*4.3%*	*22.6%*
Listing abroad	75.3%	5.3%	19.3%

Source: SEO Economic Research

Note: This table is based on the annual reports of 113 listed companies, of which 83 are Dutch companies.

SEO finds that the remuneration report is generally in line with the literal requirements of the sub-provisions of provision 3.4.1 (see Figure 2).

Figure 2 Description of remuneration policy



Source: SEO Economic Research (2021)

Note: This figure is based on the annual reports of 83 Dutch listed companies

Contribution to long-term value creation (3.4.1.ii)

In order to gain insight into the way companies apply the short-term remuneration policy in the light of long-term goals, SEO asked companies in the survey how they consider long-term performance criteria when determining short-term (annual) remuneration. Approximately 80% of respondents use short-term variable remuneration. The performance criteria for this remuneration often consist of financial and non-financial targets aimed at shareholder and stakeholder value. Around 60% of respondents stated that they award long-term bonuses for which they generally use, financial targets with a time horizon of three to five years. About 20% of respondents indicated that part of the remuneration policy is share-based. Often, the shares are linked to financial targets with a time horizon of three to five years. In addition, companies stated that the shares may not be traded for a period of five years after being awarded.

Scenario analyses (3.4.1.iii)
81% of the companies stated that scenario analyses were taken into consideration in determining the remuneration policy. Only 11% of the companies concerned reported what scenarios were taken into consideration and what impact the scenarios had on the remuneration policy; 18% of the companies did so partially. These findings are in line with the monitoring for the 2019 financial year. According to these results, three quarters of the companies stated they had taken scenario analyses into consideration as part of the remuneration policy. However, it was found that companies often reported only very summarily on this by simply stating that scenario analyses had been taken into consideration, without providing any substantive explanation.

Pay ratios (3.4.1.iv)
More than 90% of the companies describe the pay ratios within the company. 64% of all companies report in line with the guidance given by the Committee in the previous Monitoring Report, even if that guidance only applies as from the 2021 financial year. Again, significant differences can be observed between the different groups of companies: 95% of the AEX companies report in line with that guidance, but that percentage is significantly lower for the other groups (AMX: 76%, AScX: 65%, local: 39%, foreign: 53%).

Provision 3.1.2.iii stipulates that companies should in any event take into consideration, the pay ratios within the company and its affiliated enterprise when formulating the remuneration policy. SEO finds that companies often only publish the pay ratios and do not discuss what they (in particular the supervisory board) consider to be an appropriate pay ratio and how the current policy is consistent with this. 20% of the companies do however discuss this to a greater or lesser extent. Again, AEX companies (32%), AMX companies (24%), AScX companies (30%) do so more often than local companies (9%) and companies listed abroad (13%).

During the focus groups, companies stated that discussions on the pay ratios are often uncomfortable. The discussions about remuneration mainly concern the appropriateness of remuneration. The pay ratio is only one metric and in that sense not very informative. In fact, according to some companies, it even tends to paralyse discussions. With regard to the appropriateness of the remuneration, companies did however state that they take account of the pay ratio between the management board and senior management. In addition, companies noted that a high reputational risk is associated with the topic of remuneration. According to companies, it is particularly important to be transparent about the remuneration policy.

Other aspects of remuneration policy
In the remuneration report, 19% of the companies comprehensively or partially discuss the extent to which the remuneration policy may contain perverse incentives (encouraging directors to act in their own interest, to take risks that are irreconcilable with the strategy formulated and the risk appetite defined). For AEX and AMX companies, this share is about 20%, but for AScX companies, local companies and foreign companies it is between 9% and 15%.

29% of the companies provide insight into the extent to which the remuneration policy contributes to judicious decision-making regarding stakeholder interests and 10% do this partially or implicitly. Companies listed in the Netherlands more often clarify how the remuneration policy contributes to judicious decision-making regarding stakeholder interests (47%) compared to foreign companies (17%). Approximately three quarters of the companies render account on engagement with these stakeholders in the field of remuneration policy.

SEO also asked companies in the survey what aspects they have taken into consideration when formulating the remuneration policy for management board members. Table 12 below summarises the answers given. This shows that over 90% of respondents take the objectives for the long-term strategy into consideration when formulating the remuneration policy. Management board members' views on the amount of their own remuneration are also taken into consideration to a certain extent according to the survey (61.5%). In its desk research, SEO also examined whether and to what extent this was described in the remuneration report. This showed that 23% of the companies state in the remuneration report whether and how the management board members' views on their remuneration were included in determining the remuneration policy. 77% of the companies do not state this.

Table 12 More than 90% of the companies take the objectives for the long-term strategy into consideration in formulating the remuneration policy for the members of the management board of the company.

Aspect		Number	In %
1	Objectives for the long-term strategy	73	92.4%
2	The remuneration policy of peer companies	65	82.3%
3	Ratio variable/fixed	64	81.0%
4	A good balance between short and long-term remuneration	61	77.2%
5	The internal pay ratios	61	77.2%
6	The amount that our stakeholders consider acceptable	59	74.7%
7	Non-financial performance indicators	54	68.4%
8	Risks associated with the remuneration structure	51	64.6%
9	Management board members' views on the amount of their own remuneration	49	62.0%
10	Scenario analyses performed in advance	49	62.0%
11	The costs for the company	48	60.8%
12	Options for hold-back or claw-back	48	60.8%
13	Management board members' views on the structure of their own remuneration	45	57.0%
14	The development of the market price of the shares	43	54.4%
15	The term on which shares and options are granted	43	54.4%
16	Other	14	17.7%
17	The expected remaining term of office of the management board member	11	13.9%

Source: SEO Economic Research (2021) - the table above is based on 79 observations.

Question: Which of the following aspects does the company take into consideration in formulating the remuneration policy for management board members? (Note: multiple answers are possible)

SEO also asked the companies which non-financial indicators they took into consideration in formulating the remuneration policy for management board members. They name the following indicators: customer satisfaction, market share, innovation and development, NPS, emissions (including CO2), company reputation, employee satisfaction, number of employees, staff turnover, injury rates for employees, diversity of employees, absenteeism of employees, safety scores, energy efficiency index and food waste.

Respondents were asked what factors impact the determination of the optimal ratio between fixed, variable short-term, and variable long-term remuneration. Respondents stated that they look at a benchmark of the reference group, the internal pay ratios, past performance, the targets set for the management board and what stakeholders consider reasonable in terms of ratio and amounts.

View of the Committee

The assessment of compliance on the basis of the customary methodology leads to the conclusion that companies' remuneration reports generally comply with the literal requirements of provision 3.4.1. However, the in-depth analysis shows that the reporting on remuneration if often process-oriented. Companies often do not reflect on their remuneration structure, do not always state clearly how they take various aspects into consideration when formulating the remuneration policy for management board members and do not explain what is considered to be an appropriate pay ratio. In the Committee's view, there is room for improvement here.

2.7 Other topics reviewed by SEO

Organisation of the supervisory board, evaluation and report

Principle 2.3 stipulates that the supervisory board should ensure that it functions effectively and that it should establish committees to prepare the supervisory board's decision-making. The Code states that if the supervisory board consists of more than four members, it should appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee (provision 2.3.2). In its desk research, SEO identified which committees the supervisory board has established and why those committees were established. 88% of the companies describe which committees have been established. Among the companies that describe which committees have been established, almost every company has an audit committee (98%) and a remuneration committee (90%). Many of those companies also have a selection and appointment committee (76%). Other committees that are regularly established are a corporate governance committee (24%), risk committee (18%) and a sustainability committee (11%). Companies provide little substantive explanation why certain committees were established. However, a committee's purpose can often be inferred from committees' terms of reference. Some companies report that given the limited size of their supervisory board, it is difficult or impossible to establish committees.

Evaluation accountability

Principle 2.1 states that the functioning of the management board and the supervisory board as a collective and the functioning of individual members should be evaluated on a regular basis. With regard to this principle, the quality of explanations pertaining to provision 2.2.8 (Evaluation accountability) was reviewed.

According to **provision 2.2.8**, the supervisory board's report should state:

i. *how the evaluation of the supervisory board, the various committees and the individual supervisory board members has been carried out;*
ii. *how the evaluation of the management board and the individual management board members has been carried out; and*
iii. *what has been or will be done with the conclusions from the evaluations.*

59% of the companies state clearly in the report of the supervisory board how the evaluation of the management board and the supervisory board was carried out, both of individual management board members and committees, as well as of the body as a whole. SEO found that the description of the evaluation is often process-oriented with, for example, a detailed explanation of *how* the evaluation took place, without stating *what* was discussed during the evaluation.

46% of the companies explain in the report of the supervisory board what has been or will be done with the conclusions from the evaluations. The companies that do so report on agreements made during the evaluation, areas for improvement, or how feedback was given on the results.

48% of the companies stated that evaluations were carried out with the aid of an external adviser. 40% of the companies do not consider the results of the evaluations in the light of the profile, the retirement schedule and/or the diversity policy, 3% do so partially and 58% do not do so at all.

View of the Committee

The Committee acknowledges that in many cases it may be difficult for companies to explain in detail what was discussed during the evaluations. In fact, that is not what the Code requires from companies. However, the Code (provision 2.2.8.iii) does require an explanation of what has been or will be done with the conclusions from the evaluations. Many companies choose to deviate from provision 2.2.8 or do not comply with it. This had also been among the least-complied-with provisions in 2019. The Committee reiterates its appeal from last year to improve compliance with provision 2.2.8. It is also advisable to pay special attention to the topics long-term value creation, culture and behaviour in evaluations.

Absence of an internal audit department
Principle 1.3. relates to the internal audit function, the duty of which is to assess, under the responsibility of the management board, the design and the operation of the internal risk management and control systems. With regard to this principle, provision 1.3.6 (absence of an internal audit department) has been assessed in further detail.

Provision 1.3.6: *If there is no separate department for the internal audit function, the supervisory board will assess annually whether adequate alternative measures have been taken, partly on the basis of a recommendation issued by the audit committee, and will consider whether it is necessary to establish an internal audit department. The supervisory board should include the conclusions, along with any resulting recommendations and alternative measures, in the report of the supervisory board.*

The desk research leads to the conclusion that 33.7% of Dutch companies do not have an internal audit function, and 30.1% explain why they do not have an internal audit function (substantiated deviation) and 3.6% provide no explanation (non-compliance). Accordingly, compliance is 96.4%. This is similar to that in the previous financial year (overall compliance of 98.9%). Companies without an internal audit department usually explain this by referring to their limited size and/or the limited complexity of their organisation or business operations. This is in line with the fact that local companies in particular state that they do not have an internal audit function (see Table 13).

One quarter of the survey respondents stated that they do not have an internal audit department. SEO asked these companies how they had coped with the absence of an internal audit department. These companies stated that an internal audit department was of limited added value to them because of the limited size (in terms of the number of employees or turnover) of the company, and that they used an external auditor who adequately mitigated the risks.

Table 13 Rate of compliance with provision 1.3.6

	Application	Substantiated deviation	Non-compliance
Total NL (of which)	**66.3%**	**30.1%**	**3.6%**
AEX	*100.0%*	*0.0%*	*0.0%*
AMX	*85.7%*	*14.3%*	*0.0%*
AScX	*70.0%*	*25.0%*	*5.0%*
Local	*17.4%*	*73.9%*	*8.7%*
Listing abroad	73.3%	26.7%	0.0%

Source: SEO Economic Research based on the annual reports of 113 companies, of which 83 are Dutch companies.

View of the Committee

The basic principle is that companies should have a separate department for the internal audit function. However, the Code explicitly allows for departures from that principle, for example if the size of the company is not suited to this. Outsourcing may be an appropriate alternative. In this context, the Committee considers it justifiable that around one third of the companies stated that they had not established an internal audit department.

Quality of explanations

In the Monitoring Report on the 2019 financial year, the Committee stated that the reporting on long-term value creation and culture is too often process-oriented and insufficiently content-oriented. In the survey, SEO asked the companies whether they believe this observation is justified, and if so, what is keeping them from providing a more quality-oriented description of these topics and their activities in that area. Of the companies that answered this question, approximately one third stated that they believe this observation to be partially justified, with about two thirds stating they do not. More than 11% of respondents did not answer this question.

Companies that believe this observation is justified stated that:
- there is lack of clear guidance, this creates ambiguity;
- to them, formulating accurately is a challenge (i.e. clearly expressing the essence, without over-elaborating);
- there is a trade-off to some extent (i.e. specific content-oriented points are mentioned, but not a lot of detail is provided on strategy);
- they try to report more and better each year, but this takes a lot of time;
- they look at peers to determine the manner of reporting that is customary in the sector;
- the processes are also important to the stakeholders;
- it is difficult to capture these processes in figures and policy, as they concern more conduct-related elements;
- a qualitative description of long-term value creation is not particularly relevant to the company, as stakeholders' focus is on processes, actions and results;
- they do not consider it opportune (in connection with the company's long-term objective).

View of the Committee

The Committee attaches great importance to meaningful reporting. A box-ticking approach and the use of standard texts ('boilerplate') in annual reports are not compatible with this. The Committee calls on companies to embrace the Code's intentions and not only to describe processes and actions, but also to provide insight into the dilemmas and challenges that companies are faced with, the ensuing considerations, the resulting outcomes and impact on the company.

The Committee appreciates the openness and willingness of companies and the supporting parties to provide constructive input into the thinking on meaningful reporting. The Committee notes and understands that various companies are struggling to cope with increasing reporting obligations. Developments in the area of corporate social responsibility and sustainability reporting in particular are succeeding each other at an extremely high pace, and many companies quite understandably do not seem to be ready yet for what lies ahead for them. The Committee seeks to encourage and enable companies to prepare for this and to develop, and report on, their ESG (ecological, social and governance factors) strategy, without interfering with national and future legislation. A less process-oriented and more content-oriented approach to reporting on key themes such as long-term value creation, risk management and culture can help companies prepare for compliance with the new sustainability reporting requirements. This can also be helpful in furthering the thinking on ESG, developing the ESG strategy and reporting on it. The Committee is looking forward to further dialogue with the supporting parties, companies and other stakeholders on revising the Code on the aforementioned key themes.

CHAPTER 3: EXAMPLES OF MEANINGFUL REPORTING

3.1 Introduction

The Committee calls on companies to opt for a more content-oriented approach rather than a process-oriented approach in their reporting on the key themes of the Code selected in this report. In order to help companies to do so and to encourage companies to report on a more relevant content-oriented rather than a process-oriented basis, the Committee has put together a selection of instructive examples of reporting on a number of key themes in the course of the compliance study. The examples below should not be considered to be 'best practices' by definition. Some examples are certainly less than perfect, especially if they are assessed on an individual basis. Nevertheless, the Committee expects all the examples to be potentially useful together for companies and to enable them to meet the appeal from the Committee referred to above. In doing so, the Committee hopes to provide an impetus for meaningful annual reporting, which does justice to the basic principle of the Code that its operation is not determined by the extent to which it is complied with to the literal text, but rather by the extent to which all stakeholders are guided by the spirit of the Code.

3.2 Long-term value creation

Involvement of the supervisory board in strategy to achieve long-term value creation
Kendrion's annual report gives readers a considerable degree of insight into the involvement of the supervisory board in the strategy, as well as specific points for attention that the supervisory board has identified.

Example Kendrion

The Supervisory Board has defined the following attention points for 2021:

- Maintaining up-to-date contingency plans in addressing COVID-19 and securing the continuity of the company and its affiliated enterprise;
- Continued investment in China to support the realisation of the growth strategy, including the development of the new production facility in Suzhou;
- The contemplated closure of the production facility in Eibiswald, Austria, as part of the optimisation of the European manufacturing footprint of the Automotive Group;
- Advancing the IT strategy and execution thereof, as digitalisation in the manufacturing space will be crucial to long-term value creation.

Source: Kendrion N.V., *Annual Report 2020* (p. 80).

Linking long-term value creation and strategy
The Committee recommends that companies establish a clear link between the strategy and long-term value creation when reporting on long-term value creation. The selected passages below from the annual report of a.s.r. provide a good example of this. The chapter *Sustainability Statements* in Koninklijke DSM's Integrated Annual Report 2020 also contains interesting examples.

Example ASR Nederland

ExSustainable value creation
a.s.r. seeks to be a leader in sustainable business practices in the financial sector, based on a sustainable business model. It strives to meet the needs of existing and potential customers while simultaneously adding value for its other stakeholders. a.s.r. feels a responsibility to adopt a long-term approach as the starting point for its decisions and activities. And it believes it can make a positive and sustainable contribution to addressing societal challenges.

There are three areas in which a.s.r. believes it has the most impact – and where it can potentially create the most value for its stakeholders:

Financial self-reliance and inclusiveness
As a financial service provider, a.s.r. feels it is important for people to have financial continuity in their lives, to be able to take risks responsibly and make well-informed financial decisions. It therefore helps customers to gain insight into their financial situation and is helping people to make conscious financial decisions. As an insurer, a.s.r. wants its customers to be financially secure, now and in the future. a.s.r. is an insurer for people living and working in the Netherlands. a.s.r. includes vulnerable target groups and operates on the basis of financial solidarity. This requires that a.s.r. pays careful attention to inclusiveness and appreciation for diversity on the basis of equality. Examples of relevant products include the WelThuis Startershypotheek and the Interest only mortgage.

Vitality and (sustainable) employability
There is growing attention for health and vitality, prompted partly by social trends and challenges such as a later retirement age and rising health care costs. In its products and services, a.s.r. focuses on the prevention of illness, absenteeism and disability, and on encouraging sustainable employability. It promotes the sustainable employability of its customers and employees by investing in personal development, vitality and facilities that offer flexible working conditions. Furthermore, a.s.r. offers products and services that contribute to vitality and sustainable employability, such as the Langer Mee AOV, the Doorgaan Verzekering, and the Vitality programme that customers can participate in.

Climate change and energy transition
Financial institutions increasingly need to take into account the risks associated with climate change and declining biodiversity. a.s.r. contributes to the transition to a low carbon economy through its SRI and sustainable products and services; an example is the Verduurzamingshypotheek.

Based on these three areas, a.s.r. invests, develops and promotes products and services to create sustainable value for its stakeholders. At the same time the company recognises its duty to minimise the negative impact of its business activities, including its investment policy. Therefore, a.s.r. has adopted a strict SRI policy that is continuously being updated, as part of its efforts to be a frontrunner in sustainable and responsible investment. In doing so, a.s.r. makes sure that its investments are responsible, taking a holistic view on risk, return and costs and ensuring that these are taken into account.

Source: ASR Nederland N.V., *Annual Report 2020* (p.19-20).

Stakeholders
When reporting on long-term value creation, it is advisable to explicitly provide insight into the stakeholders that are relevant to the company, their interests and how these interests are taken into consideration in developing the strategy. The table below from Fugro's annual report clearly shows which stakeholders are

involved and what their interests are. The Arcadis annual report states how the interests of stakeholders are taken into consideration in developing the strategy.

Example Fugro

Environment, social, governance

Coming decades, population growth and urbanisation will lead to further increasing demands for energy, fresh water, food, minerals, metals, buildings, industrial plants and infrastructure. These global developments, as demonstrated in this pandemie year, lead to massive and potentially disruptive challenges for the world. The impact of the effects of climate change are becoming increasingly visible by the day, with rising sea levels putting coastal systems and low lying areas at risk, increasing pressure on ecosystems and biodiversity and decreasing diversity in ocean and marine ecosystems. The energy mix, infrastructure and built environments must evolve and adapt if tomorrow's problems are to be tackled successfully.

Interaction with key stakeholders

	Objective	Relevance for Fugro	Relevance for stakeholder	Interaction
Customers	Customer satisfaction and loyalty, alignment on sustainability objectives	Purchase services to support their projects	Provision of high quality competitive solutions to support and de-risk their investment	Work visits, exhibitions, periodical reviews with senior management (including members Board of Management), technology & innovation fairs
Employees	Employee motivation, attraction, engagement and retention	Essential for providing high quality services and continuity	Employer of choice, satisfying work environment, development, adequate remuneration	Intranet, collaboration tools, webinars, town halls, newsletters, quarterly bulletins, engagement surveys, performance appraisals, social media
Capital providers (shareholders, bond holders, banks)	Transparant and consistent information on strategy, results, markets, opportunities and risks; engagement	Access to capital markets	Solid investment	Bi-annual (virtual) meetings with main shareholders and other investors, investor conferences, company visits, shareholder meetings, website
Suppliers	Streng, reliable suppliers. Business relations in line with Fugro's supplier and partner code of business principles	Provide products and services required to perform company activities	Having reliable customer/partner	Negotiations and contracts, review meetings, supplier & partner code of business principles
Governments and intergovernmental organisations and programs	Adherence to legislation, understanding new developments, good citizenship	Setting local regulations and minimum requirements	Support economie development and employment, promote R&D and sustainability	Internet, trade missions, werking groups
Universities	Recruitment of staff, joint R&D activities, good citizenship	Source of potential employees with appropriate education, scientific know-how	Potential future employer and provider of traineeships and practical experience	Internet, social media, seminars, academie chair, Fugro sponsored scholarships and PhD's student, joint R&D projects
Industry societies such as IMCA, IRO and NGOs	Exchange of knowledge, participation and collaboration, improvement of industry standards	Setting national and international industry standards, science and technology exchange and supporting sustainable development	Partnership to secure and roll out industry standards, science and technology exchange and supporting sustainable development	Internet, company representatives on work committees, board positions, sharing of data
Local communities	Good citizenship	Societal support	Support of local community	Sponsorship events, engagement activities

Source: Fugro N.V., *Annual Report 2020* (p. 26).

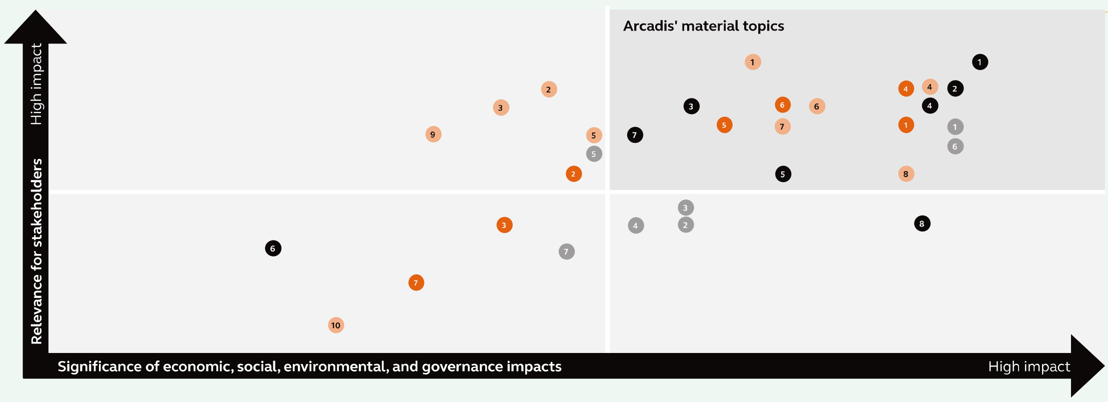
Example Arcadis

2020 was a year in which Arcadis redefined its business strategy, boosting dialogues with key stakeholders and taking a deep look at the trends affecting our markets to maximize impact. Recognizing the interconnectivity of mega trends, the sustainability challenges that affect us all and our intrinsic strengths, we engaged with both internal and external stakeholders to understand where our impacts are and where we can create change.

As part of our three-year strategy cycle, we conducted a comprehensive materiality assessment to determine the material topics for Arcadis. In early 2020, we completed our global materiality survey to solicit input from our stakeholders on the importance of the 37 environmental, social, economic, and governance material topics we had established in 2019. To further refine our material topics, we performed benchmarking across our peers, referenced the Sustainability Accounting Standards Board (SASB) for the engineering and construction services sectors, and incorporated perspectives from increased interactions with our stakeholders on non-financial topics. The outcome is a refined number of material themes clustered around four categories (Environmental, Social, Economic, and Governance) aligned with our 2021-2023 corporate strategy. Our Environmental impacts are assessed as part of the Environmental Management System Standard which is aligned to the overall materiality assessment.

The next step in our strategic process is to consolidate our work around the 9 material themes. The assurance scope over 2020 on our indicators does not yet include indicators on all material topics, also considering Arcadis' biggest ESG impact was in our projects for clients. Our stakeholder engagement and materiality assessment now clearly indicate that the assurance scope needs to change towards the future. In our new strategy, we have chosen to expand our focus on sustainability for clients and internally to maintain a credible market position. This will also entail an extension of the assurance level and scope with the aim to cover all of our relevant indicators by 2025. We expect the first scope expansion in 2021.

Materiality matrix



Economic
1. Organic revenue growth
2. Share price performance
3. Business diversification
4. Profit & Loss performance
5. Balance sheet performance
6. Cash Flow performance
7. Dividend policy

Social
1. Non-discrimination
2. Human rights
3. Child labor
4. Occupational health & safety
5. Forced or Compulsory labor
6. Training and education
7. Diversity & equal opportunity
8. Employment
9. Labor/management relations
10. Local communities

Environmental
1. Sustainable/eco design
2. Waste
3. Water and effluents
4. Energy consumption
5. Supplier environmental assessment/Supply chain management
6. Greenhouse gas emissions
7. Biodiversity

Governance
1. Anti-corruption
2. Privacy
3. Anti-competitive behavior
4. Environmental and socio-economic compliance
5. Procurement
6. Political contributions
7. Shareholder democracy
8. Tax transparency

Source: Arcadis N.V., *Annual Report 2020* (p. 51).

3.2 Risk management

Risk management accountability - insight into categories, risk appetite, failings & measures
Rendering account on risk management is of key importance for shareholders and other stakeholders. Companies must be expected to distinguish between different risk categories (see best practice provision 1.4.2.i in which, for example, reference is made to strategic, operational, compliance and reporting risks), link to risk appetite for each category and provide a thorough substantiation for this.

Ahold Delhaize's annual report identifies the various risks in a transparent manner and provides a clear description of the potential impact, the developments that took place and the mitigating measures that were implemented. The quote below from that annual report relates to strategic risks. For a more comprehensive view, reference is made to the entire risk section in that annual report. Another example of detailed reporting on risks and the associated mitigating measures can be found in Wolters Kluwer's annual report (p. 59–67).

Example Koninklijke Ahold Delhaize

Risks and material ESG impacts. Principal risks and uncertainties

Strategie risks

Competitive environment

Changes to the competitive landscape relating to non-traditional competition, the expansion of omnichannel offerings, and an increased focus in the market on healthy products and sustainability topics (e.g., food waste, sustainable agriculture, climate change, packaging and data integrity) that, without a distinct response by Ahold Delhaize, could result in a loss of competitive advantage, decrease in sales, erosion of margins and an inability to deliver on our strategie objectives.

Developments in 2020

The COVID-19 pandemie has accelerated changes in the retail landscape, particularly relating to consumer shopping preferences, a focus on value, healthy eating, and the overall channel shift from in-store to online purchasing. Traditional and non-traditional retailers have responded by adjusting product assortments, pricing and promotional offerings; focusing on the health and safety of consumers; and ramping up investment in home delivery or clickand-collect capabilities.

How we manage this risk

We have updated our Leading Together strategy, which has continued to serve us well during 2020. Our four key growth drivers are designed to ensure that our brands continue to meet the changing needs and expectations of consumers while offering a competitive value proposition in the markets they serve. For more details on our Leading Together strategy and growth drivers, see Dur Leading Together strategy and Dur growth drivers. See the Material ESG impacts section for details on our management approach to these sustainability topics.

Related growth driver

Omnichannel and digital growth

Our ability to drive omnichannel growth and expand our offerings is dependent upon striking an appropriate balance between growth and profitability, which is largely reliant on our capacity and the ability to meet demand while maximizing the cost efficiency of operations. We have a number of initiatives underway to better leverage our scale and drive operational improvements. Failure to successfully execute these initiatives may prevent us from realizing our growth ambition, and may impede us from keeping pace with our competition and consumer expectations. This risk is broken out separately from the competitive environment risk given its impotance to our overall strategy.

Developments in 2020

With the closure of restaurants and other out-of-home eating options, demand for home delivery and click-and-collect offerings has significantly increased. This has accelerated the omnichannel shift which, in turn, has challenged our supply chain's capacity and increased overall costs. Looking ahead to 2021 and 2022, we expect some of this additional demand to taper off gradually. In the medium term post-COVID-19, some consumer habits, such as werking from home, are likely to continue, preventing a sudden swing in demand back to pre-COVID-19 levels. We will continue to monitor and respond to these evolving consumer habits and adjust our omnichannel offering accordingly.

How we manage this risk

While omnichannel and digital growth was already at the core of our Leading Together strategy, the impact of the COVID-19 pandemie has led us to re-evaluate and re-prioritize our investments in our omnichannel offering, capacity and internal capabilities. In addition, we have expanded our portfolio of brands through the acquisition in January 2021 of a majority interest in New York City-based FreshDirect, which is located in a market that is strategie for the U.S. operations. For more information on the progress we have made on omnichannel and digital initiatives, see Drive omnichannel growth.

Related growth driver

Operational risks

Business continuity

Disruption of critical business processes, due to a long-term or permanent loss of key personnel, facilities, utilities, IT infrastructure or key suppliers, may result in non-availability of products for customers and have a significant adverse impact on commercial operations, revenues, reputation and customer perception.

Developments in 2020

The COVID-19 pandemie has led to disruption in virtually all aspects of our business, in particular, the stability of our supply chains and distribution centers in meeting in-store and online demand. We have also experienced disruption within our key service providers, who have also been impacted due to COVID-19 illness or government-imposed restrictions. Support office personnel have been instructed to work from home and nonessential work travel has been prohibited, in line with local guidance and regulations.

How we manage this risk

Ahold Delhaize has established a global business continuity strategy, policy and governance structure and framework for ensuring the continuity of operations. This program is supported and facilitated by dedicated business continuity managers globally and within each of our brands, who facilitate and activate crisis response protocols and reporting, and provide regular training (including simulations) to senior leadership on crisis management and response to high-impact events. Our business continuity program also includes insurance coverage in key areas and regular monitoring of vendors and third-party service providers. In response to the COVID-19 pandemie, various crisis response protocols were activated in order to balance demand across distribution networks and support remote werking for associates and key vendors. For more information on our response to COVID-19, see CDV/0-19: impact and our response.

Related growth driver

Source: Koninklijke Ahold Delhaize N.V., *Annual Report 2020* (p.39).

Examples of reporting on failings in the internal risk management and control systems are more difficult to find, as companies often state that no failings were identified. The following example from the annual report of RHI Magnesita clearly identifies the failing, the ensuing consequences and the changes and improvements that have been implemented.

Example RHI Magnesita

In 2020, the Group identified a significant failing in its internal control system relating to the management of a sales agent in Mexico. The actions of the Sales Director – Mexico and weaknesses in the oversight controls of the sales agent resulted in commission being paid to a third party who was not genuinely performing the role of a sales agent. Consequently, over a 11-year period (dating back to the RHI legal entity prior to the merger with Magnesita) monies totalling approximately €10 million had been misappropriated through this theft scheme. An internal investigation highlighted a number of remedial corrective actions, the implementation of which was led by the EMT and overseen by the Audit Committee. The key initiatives were to introduce external specialist "TRACE" certification for all sales agents and stronger validation and challenge of the activities performed by each sales agent.

Source: RHI Magnesita N.V., *Annual Report 2020* (p. 51).

Substantiation of statement by management board
Aegon's annual report demonstrates how a company can provide direct substantiation for the statement by the management board as referred to in provision 1.4.3 of the Code (i.e. without referring summarily to the risk section elsewhere in the annual report).

Example Aegon

Aegon's internal audit function assists the Executive Board in maintaining effective controls by independently and objectively evaluating the adequacy and effectiveness of the organization's internal control and risk management systems. Criteria established under 'Internal Control – Integrated Framework', the Treadway Commission's Committee of Sponsoring Organizations (COSO, 2013 framework), are used by Aegon's internal audit function to analyze and make recommendations to the Executive Board concerning the effectiveness of the Company's internal control framework. Based on risk assessments performed, the Executive Board, under the supervision of the Supervisory Board and its Audit Committee, is responsible for determining the overall internal audit work and for monitoring the integrity of the financial statements of Aegon N.V.

In addition, the Executive Board is responsible for Aegon's enterprise risk management under the supervision of the Supervisory Board and its Risk Committee. Through oversight and framework setting, Aegon's risk management function ensures that the Group-wide risk profile is managed in line with Aegon's risk tolerances, and stakeholder expectations are managed both under normal business conditions and adverse conditions caused by unforeseen events. The Executive Board is informed in a timely manner of risks to the Company's economic/statutory solvency, reputation, reliability of financial reporting or operations.

The risk management function develops and monitors compliance with risk policies and risk frameworks. The risk management function also advises on risk-related matters including risk tolerance, risk governance, risk methodology and risk policies; supports and facilitates the development, maintenance and embedding of the ERM framework and sound practices; and monitors and challenges the implementation and effectiveness of ERM practices. Finally, both the Compliance function and the Operational & Model Risk Management function play key roles in monitoring the Company's adherence to external rules and regulations and internal policies.

In preparing the consolidated financial statements, Aegon's directors and management have adopted a going concern basis on the reasonable assumption that the Company is and will be able to continue its normal course of business in the foreseeable future.

"Relevant facts, circumstances and risks relating to the consolidated financial position on December 31, 2020, were assessed in order to reach the going concern assumption. The main areas assessed were financial performance, capital adequacy, financial flexibility, liquidity, and access to capital markets, together with the factors and risks likely to affect Aegon's future development, performance, and financial position. Commentary on these areas is set out in the 'Capital and liquidity management', 'Risk management', 'Results of operations' and 'Business Overview' sections in this Annual Report. Management concluded that the going concern assumption is appropriate on the basis of the financial performance of the Company, its continued ability to access capital markets, adequate solvency ratios, and the level of leverage and Cash Capital at Holding.

Aegon's risk management and control systems provide reasonable assurance for the reliability of financial reporting and the preparation and fair presentation of Aegon's published financial statements. They cannot, however, provide absolute assurance that a misstatement of Aegon's financial statements can be prevented or detected.

Source: Aegon N.V., *Annual Report* 2020 (p. 118).

3.3 Culture

When reporting on the theme of culture, it is advisable to explicitly establish the link between culture, long-term value creation and the values for the company. The Committee advocates a more holistic approach to thinking and reporting on these issues.

Appropriateness of selected values

The annual report of ForFarmers explains concisely and clearly why the chosen values are appropriate. An explicit link is established with sustainability and long-term value creation.

Example ForFarmers

We are committed to the following core values as a sustainable compass for our corporate culture:

Ambition

We aim to achieve ever-higher results, both on-farm and within our own organisation. This requires clear leadership and a team that is in sync. Our mission to make a sustainable contribution to the challenge of feeding the global population appeals to our employees and (young) candidates. Recruiting, developing and retaining the best people and motivating them to perform even better is crucial to this, as is placing trust and responsibility in our staff.

Sustainability

The core of our Going Circular sustainability strategy is based on a framework of three key themes: feed resources, feed production and feed solutions. We aim for optimum conversion of low-value ingredients into high-quality food, with no waste and no pollution. In order to achieve this we have formulated explicit objectives and ambitions as part of our strategy. We have linked our objectives to the United Nations Sustainable Development Goals (SDGs) which are focused on zero hunger (2), affordable and clean energy (7), responsible consumption and production (12), climate action (13) and life on land (15). Our actions are geared to the long term and are based on trust and transparency, we respect local rules and procedures and show consideration for our living environment.

Partnership

We believe in focusing on what we are good at: delivering feed solutions on farm. This implies that we also believe that collaboration with partners in the chain creates added value. That is why we work with customers and suppliers as well as with our strategic partners in the various sectors. The guiding principle is a long-term relationship based on trust, and a win-win for all parties involved.

Source: ForFarmers N.V., *Annual Report 2020* (p. 18).

Linking culture and strategy for long-term value creation
ASML's annual report contains a clear link between culture and strategy:

Example ASML

Long-term stakeholder value
Our core values - Challenge, Collaborate, Care - are a key contributor to our culture aimed at long-term value creation and as such an important enabler in the execution of our strategy. Read more in: Our core values, Our people.

Strengthening our company culture
ASML's workforce has grown steeply in recent years. This strong growth in total workforce, the large number of new employees, and the evolution of the company has driven us to review what we stand for as a company and determine how we can help our people embrace our values and familiarize themselves with our strategy and purpose. We need to provide a unified direction and anchor ASML's identity deep in the organization. Given the significant number of new employees who have joined the company in recent years, we need to be even more explicit about what we stand for, articulating the values that should guide the way we work together. Based on employee feedback, we've developed a representative set of values: Challenge, Collaborate and Care. These values ensure we are all working from a commonly understood base that can be applied across our organization, and guide us in our dealings with colleagues, customers, suppliers, shareholders and the communities we serve. (Read more in: Who we are and what we do - Our core values).

In 2020, with our refreshed company purpose and values statement in place, we focused on further deploying our culture and values framework, and implementing our values in our day-to-day work. One of the ways we did this was to set up a Culture Ambassadors workgroup. This network of 120 cultural ambassadors from all levels of the organization has been tasked with helping leaders and employees anchor our corporate values and behaviors in daily routines. Their role is to understand the values, live them by example, and connect with others in the organization to promote them. We see them as multiplicators within ASML, to help embed our culture and way of thinking. This process of embedding our values is an ongoing journey, but we will make good progress if we can begin to apply them every day.

Source: ASML Holding N.V., *Annual Report 2020* (p. 22).

3.4 Diversity

The Committee reiterates its appeal for diversity to be placed higher on the agenda in a broad sense. A commitment made by companies for internal purposes to include a thorough substantiation of the diversity policy in the annual report can have a stimulating effect. A good example of this can be found in the annual reports of Randstad and Aegon:

Example Randstad

Randstad is strongly committed to equity, diversity and inclusion. We believe this helps us build a more agile, productive, and innovative workforce that reflects our talent and client base, and the society in which we work.

We are committed to advancing social justice and equity in our organization, our communities, and our society. We are working toward a world where everyone, regardless of race, gender, age, religion, sexual orientation, ability or any other characteristic, has equal access to opportunities and feels valued and respected. Our diversity pushes us forward as a company and as a team. Diverse ideas, cultures, and perspectives break down subconscious barriers and help build a team of more well-rounded employees. Our global diversity and inclusion policy and our human rights policy underline Randstad's commitment and strategy to foster inclusive employment. Equity, diversity and inclusion are also part of our mandatory business principles training for all our employees. Our HR standards document guides our organization in its core HR processes, such as recruitment, to make sure they are done in an inclusive way and to prevent discrimination against any demographic group.

We actively support women in climbing the career ladder at all levels of our organization. Randstad has signed the CEO Statement of Support for the UN Women's Empowerment Principles (WEPs), and we are committed to making a difference for women in the workplace, marketplace and community. At the end of 2020, we achieved our target of having 50% women in senior leadership positions. For the sixth time in a row, Staffing Industry Analysts (SIA) published their Global Power 150 - Women in Staffing list, which includes seven Randstad executives from around the globe. SIA recognizes influential female leaders in the industry worldwide and provides a platform to celebrate many of the talented women shaping the world of work. We have a partnership with Workplace Pride, a nonprofit foundation that strives for greater acceptance of lesbian, gay, bisexual, and transgender people in the workplace and in society. We also partner with WeConnect International, a global network that connects women-owned businesses to qualified buyers around the world. In many countries, we have signed a diversity charter, such as 'Talent naar de Top' in the Netherlands and 'Charta der Vielfalt' in Germany. On our corporate website, an overview can be found of our many local initiatives to promote equal opportunities for, among others, women, people with disabilities, the LGBTI community, and people from diverse ethnic backgrounds.

In the US, the killing of George Floyd in Minneapolis in May 2020 sparked a global discussion and movement

on racial injustice and the responsibilities of society. The events that unfolded led to questions of what can be done to support change and bring about more transformative conversations on racial equality. At Randstad, we believe it begins with recognition of the far-reaching nature of the problem and the impact it has on the well-being of all global citizens. To help facilitate these conversations, Randstad US's Chief Diversity & Inclusion Officer held online discussions to help Randstad employees navigate the topic of inclusion during a crisis and provide guidance on Diversity & Inclusion in the workplace. In addition, we took more specific steps to address racism and discrimination in our organization and the communities we serve, including new community partnerships to address unemployment in communities of color and a donation match program. We also launched a sponsorship program in the US to provide our diverse employees with senior leadership coaching, preparing them for next-level leadership roles within the company.

Source: Randstad N.V., *Annual Report 2020* (p.46-48).

Example Aegon

At Aegon, we recognize that our workforce is made up of people from a wide range of backgrounds. We want everyone to feel that they can bring their authentic self to work without fear of judgment or discrimination. By creating a safe and engaged environment where people are valued, respected, and committed to supporting each other, we can improve organizational effectiveness, make better and more inclusive decisions, and build our understanding of our customers. Our approach to inclusion and diversity is to ensure our actions and policies are woven into all areas of our businesses and at all levels of the Company. At the top of the organization, Aegon CEO Lard Friese confirmed his commitment to the Company's Statement on Inclusion & Diversity and will work toward a specific inclusion-related target as part of his 2021 objectives. Inclusion-related targets will also be included in the objectives of Aegon N.V. Management Board members and local management teams.

In 2020, Transamerica CEO Mark Mullin signed the national CEO Action for Diversity and Inclusion pledge, committing to actions to build trust and empowerment in the workplace. Transamerica was also recognized by the Diversity Best Practices Inclusion Index for the third year running, as well as being named one of the 100 Best Companies for Working Women for a second consecutive year. Meanwhile, Aegon UK signed up to the Race at Work Charter, part of a government initiative to boost racial equality in the workplace. The Charter sets out five specific calls to action and provides a framework for measuring diversity and improving inclusion.

Meanwhile, Aegon's employees continue to take active ownership of inclusivity matters within the Company. As the Black Lives Matter movement gathered pace during 2020, employees at Transamerica founded Black Professionals for Change, a new employee resource group (ERG). The group is already having an impact, with a series of conversations called 'Straight Talk on the Black Experience' underway. The discussions provide a space for employees to share their personal stories and experiences. This new group is one of many company-sponsored ERGs that show our employees' commitment to fostering positive change and an inclusive work environment.

In 2020, we asked the Central Agency for Statistics in the Netherlands (CBS) to measure the cultural diversity of Aegon the Netherlands using anonymized data on race and gender. The results show that we still have work to do for Aegon to be a true reflection of today's society: only 13% of employees have a non-Western background, most of whom work in lower-level roles. The research also identified an overrepresentation of men in senior (and thus higher-paid) positions. Aegon the Netherlands is taking steps to address this, including by setting targets for the number of women in application procedures, making equality a more central factor in succession planning at the top of the company, and conducting an analysis of a possible glass ceiling. The CBS results will be used as a baseline measurement for future years but will also help us design a diversity policy that truly responds to the current reality of our organization.

Source: Aegon N.V., *Annual Report 2020* (p.40).

3.5 Remuneration

The compliance study has shown that reflection on the appropriateness of the pay ratio is often lacking. The annual report of a.s.r. does contain an example.

Example ASR Nederland

a.s.r. is transparent concerning the remuneration of the EB. Not only in terms of actual amounts, but also in accordance with Dutch law and the Dutch Corporate Governance Code as compared with the median of the remuneration of all staff of a.s.r. As laid down in the remuneration policy of a.s.r., the ratio between the remuneration of the CEO and the median of the remuneration of the employees at a.s.r. will at all times be less than 20. The current pay-ratio is 13.29. The SB feels that this pay ratio is reasonable. When the actual remuneration of the EB is compared to the remuneration of all executive directors of all AEX-listed companies, the conclusion can be drawn that the remuneration of a.s.r.'s CEO is among the lowest compared with the CEO remuneration of all AEX companies and that the pay ratio is among the lowest compared with other AEX companies.

Source: ASR Nederland N.V., *Annual Report* 2020 (p. 141).

3.6 Evaluation

In addition to a description of the process, the following example from DSM's annual report also provides adequate insight into the key results of the evaluation. AkzoNobel's annual report provides insight into what is done with the results of the evaluation. In a way, a link is also established with the strategy and long-term value creation.

Example Royal DSM

An evaluation of the Supervisory Board is performed once every three years by an external advisor; this was the case in 2019. In the other two years, including 2020, the evaluation of the Supervisory Board is performed by means of a selfassessment consisting of a written survey, followed by in-depth, one-on-one interviews between the Chair and individual Supervisory Board members.

The overall feedback from the evaluation in 2020 was again positive. All topics (team composition, meetings, committees, people processes, agenda definition, etc.) received very high scores. Supervisory Board members appreciate the atmosphere in the Board, and the quality of discussions, which include constructive challenging where appropriate. All members feel heard, valued and trusted, and appreciate the distinctive strengths all the different members bring to the table. In 2020, the informal moments of personal interaction between Board members and with Managing Board and Executive Committee members, as well as other employees, were of course missed. In terms of follow-up and improvements, the Supervisory Board asked to spend even more time on innovation going forward and to increase the time allocated to post-investment reviews, analyzing the performance of all investments made as well as those it was decided not to make.

While the Managing Board's performance is (indirectly) also assessed as part of the evaluation, this happens throughout the year as part of the discussions on succession planning in the Nomination Committee. This applies particularly when the performance appraisals of Managing Board members are discussed, as well as their performance versus their individual targets in the Remuneration Committee. The Nomination and Remuneration Committees report back on these discussions to the Supervisory Board.

Source: Royal DSM N.V., *Annual Report 2020* (p. 151).

Example AkzoNobel

The Supervisory Board is pleased to confirm the evaluation concluded that the Supervisory Board and its committees continue to operate proficiently. There is a dynamic and open atmosphere between the Supervisory Board and the Executive Committee and the Supervisory Board papers reflect this openness, although it was recommended that board papers be shared in a more timely manner in the future. With regard to Supervisory Board meetings, the Chairman and CEO will work together to review the current Supervisory Board agenda to ensure both the topics and the time allocation reflect the future strategic priorities for the company. In line with AkzoNobel embarking on its new Grow & Deliver strategy, the key recommendations included reviewing the composition of the Supervisory Board and the Committees to optimize their fit for the future. In addition, the Nomination Committee will ensure a strong executive development and succession management program is developed during 2021. AkzoNobel has a strong track record in ESG and will continue to focus on this across all countries in which it operates. The Supervisory Board will continue to actively support these initiatives. The impact of COVID-19 meant that most of the interaction took place virtually in 2020. As soon as restrictions allow, spending more time in person will be prioritized. In the meantime, the use of virtual technology to enable the Supervisory Board to "meet" with AkzoNobel's people around the world and deep dive into different areas of the business has been very helpful and will continue in 2021.

Source: AkzoNobel N.V., *Annual Report 2020* (p. 62).

APPENDIX 1:

COMPOSITION OF THE CORPORATE GOVERNANCE CODE MONITORING COMMITTEE

Chairman

Ms P.F.M. van der Meer Mohr LLM

Chairman, Supervisory Board, EY Nederland LLP
Non-executive director, HSBC Holdings plc
Non-executive director, Viatris
Member, Supervisory Board, ASM Internationaal
Chairman, Supervisory Board, Nederlands Dans Theater
Member, AFM Capital Market Committee
Member, selection committee of the Supreme Court of the Netherlands
Member, evaluation committee, Conservatrix

Committee members

Ms prof. B.E. Baarsma

CEO, Rabo Carbon Bank
Professor of Applied Economics, University of Amsterdam
Bank Council Chairman, De Nederlandsche Bank
Member, Dutch Committee for Entrepreneurship and Financing (Nederlands Comité voor Ondernemerschap en Financiering)

Mr P.J. Gortzak LLM

Executive Director Policy, APG
Member, Supervisory Board, CFK
Member, Supervisory Board, Nationaal Register
Member, Netspar Foundation Board
Member, Management Board, NL Sporter

Mr S. Hepkema LLM

Chairman, Supervisory Board, Wavin NV
Member, Supervisory Board, SBM Offshore NV
Member, Management Board, VEUO
Senior Advisor, Bain Capital Private Equity

Mr D.R. Hooft Graafland

Member, Supervisory Board, Koninklijke Ahold Delhaize NV
Member, Supervisory Board, Koninklijke FrieslandCampina NV
Chairman, Supervisory Board, Wavin NV
Board Chairman, Stichting African Parks Foundation
Board Chairman, Carré Fonds

Ms prof. E.M.L. Moerel LLM

Professor, Global ICT Law, Tilburg University
Senior of Counsel, Morrison & Foerster (Brussels)
Member, Cyber Security Council
Chairman, Supervisory Board, Mauritshuis
Member, Supervisory Board, SIDN
Non-executive director, Topicus.com coop

Mr R.M.S.M. Munsters MiF

Member, Supervisory Board, UnibailRodamcoWestfield SE
Non-executive director, Moody's Europe
Non-executive board member, BNY Mellon European Bank
Member, Supervisory Board, PGGM Vermogensbeheer
Chairman, Supervisory Board, Athora Netherlands
Senior Advisor Rothschild & Co

Secretariat

Ms R.J.G. Kitaman LLM

Ministry of Economic Affairs and Climate Policy, Enterprise Directorate

Ms S.M. de Mik LLM

Ministry of Economic Affairs and Climate Policy, Enterprise Directorate

Observers

Ms N. ten Kate LLM

Ministry of Justice and Security, Legislation and Legal Affairs Department

Mr L.D. Brouwer

Ministry of Finance, Financial Markets Department

External legal advice

Mr O.M. Buma LLM

NautaDutilh

APPENDIX 2: NATIONAL AND INTERNATIONAL DEVELOPMENTS

National developments

Policy document on International Corporate Social Responsibility

On 16 October 2020, the government published the policy document on International Corporate Social Responsibility (hereafter: IMVO) 'Van voorlichten tot verplichten' ('From providing information to imposing requirements') and the accompanying Letter to Parliament[15] with explanatory notes. These documents reflect the evaluation of the current Dutch IMVO policy and also outline the main features of the new policy.

The government concluded that the current IMVO policy is insufficiently effective and that renewal is necessary. An effective policy requires a judicious blend of mandatory and voluntary measures. The mandatory measure considered to be most effective is a broad due diligence obligation, preferably at European level with a view to a level playing field and greater policy effectiveness. A due diligence obligation is more likely to achieve a change in behaviour than, for example, a transparency obligation. The government therefore sees the introduction of a broad due diligence obligation as a key part of the new IMVO policy.

On 5 November 2021, the Minister for Foreign Trade and Development Cooperation informed the House of Representatives about the building blocks for IMVO legislation.[16] The building blocks serve primarily to influence the EU's proposal for a Directive on sustainable corporate governance. The building blocks cover 1) the scope, 2) the due diligence requirements and 3) the organisation of the supervision and enforcement of a future comprehensive due diligence obligation, and 4) a general duty of care for all companies in accordance with the OECD Guidelines.

Private members' bill on responsible and sustainable international entrepreneurship

On 11 March 2021, SP, GroenLinks, PvdA and ChristenUnie submitted a bill on due diligence in supply chains to combat violations of human rights, labour laws and the environment in foreign trade activities. This bill is based on the consideration that it is desirable, partly in view of international principles and guidelines, to combat violations of human rights, labour laws and the environment in foreign trade activities by imposing rules for due diligence in supply chains. The bill is currently being debated the House of Representatives. The initiators say they already want to start introducing national measures because they believe that a process at the European level is still likely to take a long time. In their view, a bill at the national level also increases and speeds up the likelihood of an ambitious EU proposal and its content can also influence the content of EU regulations (the proposal for a directive on sustainable corporate governance). This private members' bill also proposes repealing the Child Labour (Duty of Care) Act (*Wet zorgplicht kinderarbeid*).

Bill on statutory reflection period

The bill on the statutory reflection period entered into force on 1 May 2021. As a result, pursuant to Section 2:114b of the Dutch Civil Code, the management board of a listed company now has the opportunity to invoke a reflection period of up to 250 days in the case of shareholder activism or a hostile public bid. The purpose of this reflection period is to give the management board the time and opportunity to carefully

[15] Parliamentary Papers II 2020/2021, 26 485, No. 337
[16] Parliamentary Papers II 2021/2022, Parliamentary Paper 2021Z19657.

consider the effects of the aforementioned situations on the company and the interests of the parties concerned with a view to careful policy determination.

Balanced Male-Female Ratio Bill *(Wetsvoorstel evenwichtiger man/vrouw verhouding)*

On 1 January 2022, the Balanced Male-Female Ratio Act (*Wet evenwichtiger man/vrouw verhouding*) will enter into force. The Act lays down rules to improve the ratio between men and women on boards of large companies.[17] The statutory regulation aimed at increasing gender diversity on boards of Dutch businesses stems from the SER advice on Diversity at the top: time for acceleration. The new legislation obliges Dutch listed companies to achieve a proportion of at least one third men and one third women in the supervisory board. Any new appointment that does not contribute to this is null and void. In addition, large public limited companies and large private limited companies (about 5,000 companies) are obliged to set appropriate and ambitious targets for the supervisory board, the management board and the second-tier management. These large companies are required to draw up a plan setting out how the target is to be achieved and to be transparent about their process, efforts and results. They are also required to report on this to the SER. This represents an expansion of the reporting requirements on diversity that already apply to listed companies on the basis of the law and the Code.

Private Member's Bill for the Equal Pay (Men and Women) Act *(Initiatiefwetsvoorstel Wet gelijke beloning van vrouwen en mannen)*

In 2018, a number of Members of Parliament had submitted a private member's bill for consultation intended for amending the Equal Treatment (Men and Women) Act (*Wet gelijke behandeling mannen en vrouwen*) in connection with the introduction of a certificate as proof that men and women receive equal pay for work of equal value (Equal Pay (Men and Women) Act).[18] Employers with, as a rule, at least 250 employees must obtain a certificate that shows that the organisation pays equal pay for equal work. In addition, every employer with more than 50 employees must provide information in the management report on the extent of pay differences between male and female employees. In case of unequal pay, this must be explained and clarified in the management report. At the same time, the management report must also indicate how these differences in pay will be reduced. The bill is currently being debated the House of Representatives. The first session of the plenary discussion took place on 2 February 2021.

Bill on the future of the audit sector *(Wetsvoorstel toekomst accountancysector)*

The Ministry of Finance is preparing a bill to permanently improve the quality of statutory audits. These measures will implement the government's response to the report of the Committee on the Future of the Audit Sector (Cta), which was sent to both Houses of the States General by letter dated 20 March 2020.[19] A number of the measures announced by the government to implement the Cta report require a change in law. The bill provides a legal basis for reporting based on the quality indicators that can provide insight into factors that can contribute to the quality of statutory audits *(audit quality indicators*). Furthermore, this bill obliges the largest audit firms to set up an internal supervisory body with powers with regard to investments and profit distribution. In addition, this bill contains authorises the Netherlands Institute of Chartered Accountants (NBA) to appoint an audit firm in cases where an audit client does not find an audit firm to perform the statutory audit. Other amendments in this bill relate to the simplification and strengthening of the supervision of non-PIE audit firms. In addition, a number of other changes, which do not arise from Cta report, are proposed, including changes with regard to the professional competence of foreign auditors, a tightening of the AFM's enforcement tools, the modernisation of the NBA's governance and the streamlining of disciplinary law for auditors. The bill was issued for consultation from 9 July 2021 to 16 September 2021.

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17 Act of 29 September 2021 amending Book 2 of the Dutch Civil Code to achieve a more balanced ratio between the number of men and women in the management board and the supervisory board of large public limited companies and private limited companies *(Bulletin of Acts and Decrees 2021, 495).*

18 Parliamentary Papers II, 2018/19, 35 157 No. 2.

19 Parliamentary Papers II, 2019/2020, 33 977 No. 29.

The Future of the Audit Sector Coordinators published a consultation document on the audit quality indicators at the same time.

Sneller and Slootweg motion and Nijboer motions

On 6 October 2020, the House of Representatives passed a motion by Sneller and Slootweg observing that the Netherlands has a rich tradition in the area of corporate governance, where the management boards of companies are expected to take into consideration, in a balanced manner, a broader range of economic and social interests that affect all stakeholders, and requesting the government to examine how this form of governance, in which the interests of all stakeholders are taken into account in a balanced way, can be anchored in the law and otherwise encouraged.[20]

On 8 September 2020, a motion by House of Representatives member Nijboer was passed in which the House requests the government to investigate the possibility of reintroducing the so-called 'cream-off scheme' (*afroomregeling*) in mergers and acquisitions.[21] For this, the House of Representatives took into consideration the fact that the previously applicable statutory 'cream-off scheme' (the obligation to deduct any increase in the value in the event of a merger or acquisition from the remuneration of a management board member) disappeared from the law in 2017, while it remains undesirable for management board members of a company to have a financial interest in case of a merger or acquisition. On 8 September 2020, the House of Representatives also passed a second motion by Member Nijboer where he requested the government to formulate proposals for discouraging quarterly reporting and encouraging loyalty shares.[22] That was because a majority of the members of the House of Representatives still think that short-term interests could gain the upper hand in listed companies.

On 14 June 2021, the Minister for Legal Protection informed the House of Representatives about how he implemented the Sneller and Slootweg motion and about the progress of the two aforementioned motions by Nijboer.[23] The Minister stated in this Letter to Parliament that he is in favour of further accountability by companies and their directors on the strategy and its implementation in relation to social issues. However, the European Commission is currently working on a proposal for a Directive on sustainable corporate governance. The Minister therefore stated that he would not be preparing national legislation at this time.

With regard to the two motions by Nijboer, the Minister for Legal Protection will inform the House of Representatives, in the context of the progress of the modernisation of public limited company law, about the desirability, usefulness and necessity of stimulating loyalty shares and limiting financial incentives for directors in the event of takeovers/mergers. In this connection, the Minister for Legal Protection will also inform the House of Representatives in further detail of the possible introduction of permanent regulations for virtual (shareholders) meetings. The Minister sees no reason to further discourage quarterly reporting.

Investments, Mergers and Acquisitions Security Screening Bill *(Wetsvoorstel veiligheidstoets investeringen, fusies en overnames).*

The Investments, Mergers and Acquisitions Security Screening Bill has been announced as an investment test on national security risks. This bill introduces security screening for investments, mergers and acquisitions that could pose a national security risk. The security screening applies to two types of companies in the Netherlands: critical service providers and companies that possess sensitive technology. The intention is to introduce the security screening for investments from all countries. If companies carry out activities that fall within the scope of the bill, they must report to the Minister for Economic Affairs and Climate Policy in

[20] Motion by Members Sneller and Slootweg, Parliamentary Papers II, 2020/21, 35 570-IX No. 13.
[21] Motion by member Nijboer c.s., Parliamentary Papers II, 2019/20, 35 367 No. 16.
[22] Motion by member Nijboer c.s., Parliamentary Papers II, 2019/20, 35 367 No. 17.
[23] Parliamentary Papers II 2020/2021, 29 752, No. 14

advance. A risk analysis and assessment is then carried out to assess whether there is a national security risk. If such risks are identified, measures may be imposed to manage these risks. The bill contains a reference date of 8 September 2020 and therefore has retroactive effect to that date. The bill was submitted to the Lower House on 30 June 2021 and is now under discussion.

Shell ruling

On 26 May 2021, the Hague District Court ruled in the case of Milieudefensie and others versus Shell.[24] Seven foundations and associations (including Milieudefensie, Greenpeace, stichting Fossielvrij-beweging and the Landelijke Vereniging tot Behoud van de Waddenzee) and more than 17,000 individual claimants filed a case against Royal Dutch Shell (hereinafter referred to as: RDS), because in their opinion RDS needs to do more to reduce CO2 emissions. The claimants claimed that CO2 emissions should be reduced by 45% or, in the alternative, by 35% or 25% by 2030 compared to the 2019 level. The claims concern the CO2 emissions of the Shell Group itself as well as those of its suppliers and customers. The court concluded that RDS is obliged to ensure a CO2 reduction of the Shell group, its suppliers and customers through the Shell group's corporate policy. This ensues from the unwritten standard of care laid down in Book 6 Section 162 of the Dutch Civil Code applying to Shell, which means that acting in conflict with what is generally accepted according to unwritten law is unlawful. The court interpreted this standard on the basis of the facts, widely endorsed insights and internationally accepted standards. The court asserted that the Shell group is one of the largest producers and suppliers of fossil fuels and that its CO2 emissions, together with those of its suppliers and customers, exceed those of many states. This contributes to global warming, which leads to dangerous climate change and poses serious risks to human rights, such as the right to life and the right to respect for private and family life. The court states that it is universally endorsed that companies must respect human rights and that this is an individual responsibility of companies that exists independently of the responsibility of states. This responsibility also extends to the suppliers and customers. On RDS rests an obligation of results as regards the CO2 emissions of the Shell group itself. A significant best-efforts obligation applies as regards the suppliers and customers, whereby RDS must use its influence through the Shell group's corporate policy, for example by imposing requirements on suppliers via the procurement policy. RDS has total freedom to comply with its reduction obligation as it sees fit, and to shape the corporate policy of the Shell group at its own discretion. The sacrifices this requires are outweighed by the interests served by preventing dangerous climate change. While the court did not find that RDS is already violating this obligation under Section 6:162 of the Dutch Civil Code, the court ruled that there is an imminent violation of the reduction obligation, because the Shell group's policy is not concrete and is subject to numerous conditions. The court therefore ordered RDS to reduce, through the corporate policy of the Shell group, the CO2 emissions of that group, its suppliers and customers at end 2030. This ruling is unique. It is the first time that a court has imposed an order to reduce CO2 emissions on a company. Shell has appealed this decision.

Report on strengthening accountability chain *(Rapport versterking verantwoordingsketen)*

Leiden University, commissioned by the Ministry of Finance, has conducted research into strengthening the responsibility of the audited entities themselves with regard to the audit and annual reporting. The report was presented to the House of Representatives on 9 July 2021.[25] The report contains a number of recommendations regarding amendments of the Corporate Governance Code and the Dutch Civil Code. Among other things, the researchers recommend enshrining the in-control statement in law and broadening the scope of the in-control statement as laid down in the Corporate Governance Code. The researchers thereby aim to provide additional incentives for the management board to actually be in control. The Minister will not proceed to enshrine the in-control statement in law, but will bring the recommendation to the attention of the Monitoring Committee. The Minister also endorses the recommendations made by the researchers to strengthen the internal audit function, for example by providing a direct contact at the

24 ECLI:NL:RBDHA:2021:5337

25 Parliamentary Papers II, 2020/2021, 33 977 No. 37.

highest executive level of the listed company. In addition, the Minister agrees that it is important to improve communication with the AGM by listed companies on the selection and appointment of the auditor, the audit procedures, and the performance and the findings of the auditor. According to the Minister, these recommendations could be included in the Code.

Hybrid and fully virtual AGMs

Owing to the COVID-19 pandemic, holding a virtual AGM has become 'normal'. However, many listed companies found it difficult to host live dialogue between the shareholders and the management board, the supervisory board and the auditor. In view of the continuing need for restrictive measures to prevent new Covid-19 infections, many AGMs again took place in hybrid or fully virtual form this year, on the basis of the Temporary COVID-19 Justice & Security Act (*Tijdelijke wet COVID-19 J&V*) (which has been extended until 1 February 2022). The hybrid option could also be included in the articles of association so that this option is retained even when this temporary Act ceases to apply. This can already be done under the current statutory regulations. In a letter dated 14 June 2021, the Minister for Legal Protection informed the House of Representatives that the expert group on Modernisation of public limited company law had recommended (also) establishing permanent legal regulations for fully virtual general meetings for all legal entities.[26] The Minister for Legal Protection has promised to undertake an investigation into a broad statutory basis for virtual meetings for all legal entities.

Progress report on Stewardship Code

On 16 June 2021, Eumedion published the second progress report on the implementation of the Dutch Stewardship Code.[27] This demonstrated that Eumedion's participants are progressing the implementation of meaningful integration of the principles of the Dutch Stewardship Code into policy and reporting. Like the previous report, this report presents high compliance rates with regard to the required transparency on voting behaviour. The study shows that participants can take additional steps to clarify further how they determine which voting items are 'significant' and how they acted in practice. A similar picture emerges with regard to the dialogue programmes. The report calls on Eumedion participants to increase transparency on how they communicate with other relevant stakeholders of listed companies. The study shows that only one third of the participants have explicitly incorporated this into the policy. Moreover, there are very few instances where participants report on how communication with other stakeholders of companies has contributed to a meaningful dialogue.

International developments

European Union

Proposal for a Directive on Sustainable Corporate Governance

The European Commission is working on a proposal for a Directive to better embed sustainability within the corporate governance framework, aimed at better alignment of the long-term interests of the management board, shareholders, stakeholders and society. The consultation took place from 26 October 2020 to 8 February 2021. The proposal for a Directive is expected to contain a due diligence obligation for companies (see page 1 of this appendix on this, under the heading 'Policy Document on International Corporate Social Responsibility'). The European Commission intended to publish this proposal in 2021 but now expects to publish it in 2022.

26 Parliamentary Papers II 2020/2021, 29 752, no. 14.

27 Eumedion, Dutch Stewardship Code Implementation Progress Report 2021 (available at https://www.eumedion.nl/clientdata/215/media/clientimages/Dutch-Stewardship-Code-Implementation-Progress-Report-2021---final.pdf?v=210616175048).

Proposal for a Directive on Sustainability Reporting
On 21 April 2021, the European Commission presented a proposal for a Directive on a revision of sustainability reporting.[28] With the proposal for a Directive, the Commission intends to meet the growing need in society for sustainability reporting by companies. This comprises annual reporting on environmental, employee and social matters, respect for human rights and anti-corruption and anti-bribery matters (the sustainability factors). Since the 2017 financial year, there is a general obligation for European listed companies, banks and insurers with more than 500 employees to report on this non-financial information. The Commission proposes to extend this group of companies that are required to report (to include large banks and insurers, listed companies (except listed micro-companies) and large companies) and to specify the information they should report, to make the reports more accessible and comparable by means of standardisation and digitalisation, and to subject the reporting to an audit.

Furthermore, when preparing the report, undertakings are expected to consider both their impact on sustainability factors and how the sustainability factors affect the undertaking; this is known as 'double materiality'. The reporting should include a description of the business model, the corporate policies, the objectives and the strategy with regard to the sustainability factors, the role played in that regard by the management board and the supervisory board and the associated risks. It must also include a description of how the company is aligned with the transition to a sustainable economy, with the climate goals of the Paris Agreement and the progress made by the company towards achieving its sustainability targets. Furthermore, the undertaking is required to render account on the due diligence process, including the adverse impacts in the undertaking's value chain and the measures taken to prevent, mitigate and remediate the adverse impacts.

Regulation on European Green Bonds
On 6 July 2021, the European Commission presented a proposal for a Regulation on European Green Bonds. By means of the proposal, the Commission intends to encourage investment in sustainable activities by developing a high-quality and reliable standard for sustainable, i.e. green, bonds. The proposal sets requirements for institutions that aim to comply with the EU standard and therefore to be able issue a sustainable bond with the label 'European Green Bond' or 'EuGB'. A significant difference between the proposed EU standard and existing market standards for green bonds is that all proceeds from an EuGB must be invested in activities that meet the sustainability criteria of the EU taxonomy.

Proposal for a Directive on equal pay for men and women
On 4 March 2021, the European Commission presented a proposal for a Directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women. In the proposal for a Directive, the Committee aims at laying down minimum requirements strengthening the application of the principle of equal pay for equal work or work of equal value between men and women, mainly through pay transparency measures and reinforced enforcement mechanisms.

The proposal obliges Member States to take necessary measures to ensure that employers have pay structures in place ensuring that women and men are paid equally for the same work or work of equal value. In addition, the proposal contains transparency measures. Each year, for example, employers with at least 250 workers must make publicly available information on pay differences, including the average pay gap between all male and female workers. Workers will also have the right to request information on their individual pay level and on the average pay levels, broken down by sex, for categories of workers doing the same work or work of equal value. Lastly, Member States must ensure that judicial procedures are readily available for the enforcement of rights and obligations relating to the principle of equal pay.

[28] Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014 as regards corporate sustainability reporting, COM(2021)189.

Developments in surrounding countries

Germany

In June 2021, the German Parliament adopted two legislative proposals ('Finanzmarktintegritätsstärkungsgesetz' and 'Lieferkettensorgfaltspflichtgesetz') to strengthen the corporate governance of German listed companies. The 'Finanzmarktintegritätsstärkungsgesetz' strengthens the rules on internal and external audit. For example, all German listed companies are required to establish an audit committee consisting of at least two financial experts. The audit committee will for instance be given the legal right to request information from the internal audit function, the internal head of risk management and the compliance officer. The ban on the provision of consultancy services by the audit firm that audits the financial statements of the company concerned will also be tightened. The proposal for a 'Lieferkettensorgfaltspflichtgesetz' obliges all large German companies to take measures to prevent violations of human rights in their (direct) supply chains. In addition, they must draw up regulations for reporting abuses and irregularities and report on their due diligence activities.

In addition, on 6 January 2021, the German government presented a bill requiring large German listed companies to have at least one female management board member if the board consists of at least three people. The other, smaller German listed companies continue to be obliged to formulate a target for the number of female directors. The bill still needs to be approved by the German Parliament. Germany already applies the statutory requirement that at least one third of the members of the supervisory board must be female.

Developments in other countries

United States

As of 7 August 2023, companies listed on NASDAQ must have at least one 'diverse' (executive or non-executive) director or explain why they do not have one.[29] As of 6 August 2025, they must have at least two 'diverse' (executive or non-executive) directors or explain why they do not. Companies that are not based in the United States but are listed on NASDAQ comply with the diversity rule if they have at least two female (executive or non-executive) directors. In addition, from 8 August 2022, NASDAQ-listed companies are required to publish a standardised diversity matrix stating how many directors are female, have a non-Western background and belong to the LGBTI community.

Japan

Japanese Corporate Governance was revised in June 2021.[30] The most important changes relate to the independence of directors, diversity and sustainability. In the near future, at least one third of the directors on the (one-tier) board of large Japanese listed companies with a listing on the Prime Market must consist of independent directors. In addition, every Japanese listed company must draw up and publish a diversity and competency matrix. This must address aspects such as gender, age and nationality. Under the revised Code, every Japanese listed company will also have to develop a sustainability policy. Specifically with regard to climate policy, the largest Japanese listed companies are instructed to follow the TCFD reporting framework or equivalent international reporting frameworks. The revised Code is set to take effect on 4 April 2022.

[29] Diverse is understood to mean: woman, under-represented minority or LQBTQ+. See NASDAQ Rule 5605(f)(1): *"Each Company […] must have, or explain why it does not have, at least two members of its board of directors who are Diverse, including (i) at least one Diverse director who self-identifies as Female; and (ii) at least one Diverse director who self-identifies as an Underrepresented Minority or LGBTQ+*", available at: https://listingcenter.nasdaq.com/rulebook/nasdaq/rules/nasdaq-5600-series).

[30] Japan's Corporate Governance Code, Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term (June 11, 2021), available at https://www.jpx.co.jp/english/news/1020/b5b4pj0000046kxj-att/b5b4pj0000046l07.pdf. https://www.jpx.co.jp/english/news/1020/b5b4pj0000046kxj-att/b5b4pj0000046l07.pdf

APPENDIX 3:
STUDY POPULATION

Company	Index	Desk research	Survey
Dutch companies			
ABN AMRO Bank N.V.	AEX	✓	✓
Adyen	AEX	✓	✓
Aegon N.V.	AEX	✓	✓
Akzo Nobel N.V.	AEX	✓	✓
ASM International N.V.	AEX	✓	✓
ASML Holding N.V.	AEX	✓	✓
ASR Nederland N.V.	AEX	✓	✓
Heineken N.V.	AEX	✓	✓
IMCD N.V.	AEX	✓	✓
ING Groep N.V.	AEX	✓	✓
Just Eat Takeaway.com N.V.	AEX	✓	✓
Koninklijke Ahold Delhaize N.V.	AEX	✓	✓
Koninklijke DSM N.V.	AEX	✓	✓
Koninklijke KPN N.V.	AEX	✓	✓
Koninklijke Philips N.V.	AEX	✓	✓
NN Group N.V.	AEX	✓	✓
Prosus N.V.	AEX	✓	✓
Randstad Holding N.V.	AEX	✓	✓
Wolters Kluwer N.V.	AEX	✓	✓
Aalberts N.V.	AMX	✓	✓
Alfen	AMX	✓	✓
AMG Advanced Metallurgical Group N.V.	AMX	✓	✓
Arcadis N.V.	AMX	✓	✓
Basic-Fit N.V.	AMX	✓	✓
BE Semiconductor Industries N.V.	AMX	✓	✓
Corbion N.V.	AMX	✓	–
Eurocommercial Properties N.V.	AMX	✓	✓
Flow Traders N.V.	AMX	✓	✓
Fugro N.V.	AMX	✓	✓
GrandVision N.V.	AMX	✓	–
Intertrust N.V.	AMX	✓	✓
JDE PEET'S N.V.	AMX	✓	✓
Koninklijke Boskalis Westminster N.V.	AMX	✓	✓
OCI N.V.	AMX	✓	✓
Pharming Group N.V.	AMX	✓	–
Post NL N.V.	AMX	✓	✓
SBM Offshore N.V.	AMX	✓	✓

Company	Index	Desk research	Survey
Signify N.V.	AMX	✓	✓
TKH Group N.V.	AMX	✓	–
Accell Group N.V	AScX	✓	✓
AFC Ajax N.V.	AScX	✓	✓
Amsterdam Commodities N.V.	AScX	✓	✓
Avantium	AScX	✓	✓
Brunel International N.V.	AScX	✓	✓
CM.com	AScX	✓	–
ForFarmers N.V.	AScX	✓	✓
Heijmans N.V.	AScX	✓	✓
Kendrion N.V.	AScX	✓	✓
Koninklijke BAM Groep N.V.	AScX	✓	✓
Lucas Bols	AScX	✓	–
N.V. Nederlandse Apparatenfabriek NEDAP	AScX	✓	✓
NSI N.V.	AScX	✓	✓
Ordina N.V.	AScX	✓	✓
Sif Holding N.V.	AScX	✓	✓
Sligro Food Group N.V.	AScX	✓	✓
Van Lanschot Kempen	AScX	✓	✓
Vastned Retail N.V.	AScX	✓	✓
Wereldhave N.V.	AScX	✓	✓
Alumexx NV	Local	✓	–
Beter Bed Holding N.V.	Local	✓	✓
Core Laboratories N.V.	Local	✓	–
Ctac N.V.	Local	✓	✓
DGB Group	Local	✓	✓
Ease2pay NV	local	✓	✓
Envipco	Local	✓	–
Fastned N.V.	Local	✓	✓
GeoJunxion N.V.	Local	– (annual report not available)	–
Holland Colours N.V.	Local	✓	–
Hydratec Industries N.V.	Local	✓	✓
ICT Group N.V.	Local	✓	–
IEX Group N.V.	local	✓	–
Koninklijke Brill N.V.	local	✓	–
Koninklijke Delftsch Aardewerk-fabriek N.V.	Local	✓	✓
Koninklijke Vopak N.V.	Local	✓	✓
Lavide N.V.	Local	✓	✓
MKB Nedsense N.V.	Local	✓	–

Company	Index	Desk research	Survey
New Sources Energy N.V.	Local	– (annual report not available)	–
Neways Electronics International N.V.	Local	✓	✓
Novisource N.V.	local	✓	–
Oranjewoud	local	– (annual report not available)	–
RoodMicrotec N.V.	Local	✓	–
SnowWorld N.V.	Local	✓	–
Stern Groep N.V.	Local	✓	–
TIE Kinetix N.V.	Local	✓	✓
TomTom N.V.	Local	✓	✓
Value8 N.V.	Local	✓	–
Foreign companies			
Ad Pepper Media International	Listing abroad	✓	✓
Aercap Holdings	Listing abroad	✓	–
Affimed	Listing abroad	✓	–
Airbus	Listing abroad	✓	–
Argen-X	Listing abroad	–	–
Astarta Holding	Listing abroad	✓	✓
Cementir Holding	Listing abroad	✓	✓
Centogene	Listing abroad	✓	–
CNH Industrial	Listing abroad	✓	–
Cnova	Listing abroad	✓	✓
Cosmo Pharmaceuticals	Listing abroad	✓	–
CureVac	Listing abroad	–	–
Davide Campari-Milano	Listing abroad	✓	✓
Digi Communications	Listing abroad	✓	✓
DP Eurasia	Listing abroad	✓	–
Elastic	Listing abroad	–	–
EPP	Listing abroad	✓	✓
Euronext N.V.	Listing abroad	✓	–
Exor	Listing abroad	–	–
Ferrari	Listing abroad	✓	✓
Franks International	Listing abroad	–	–
Fyber	Listing abroad	✓	–
IGEA Pharma	Listing abroad	–	–
InflaRx	Listing abroad	–	–
Kardan	Listing abroad	✓	✓
Lastminute.com	Listing abroad	–	–
LyondellBasell Industries	Listing abroad	–	✓
Merus	Listing abroad	✓	–

Company	Index	Desk research	Survey
Mopoli	Listing abroad	–	–
NXP Semiconductors	Listing abroad	–	✓
Peixin International Group	Listing abroad	–	–
Photon Energy	Listing abroad	✓	–
Playa Hotels & Resorts	Listing abroad	✓	–
Plaza Centers	Listing abroad	–	–
ProQR	Listing abroad	✓	–
Qiagen	Listing abroad	–	–
RHI Magnesita	Listing abroad	✓	–
Shop Apotheke Europe	Listing abroad	✓	✓
Stellantis	Listing abroad	–	✓
Steinhoff International Holdings	Listing abroad	✓	–
STMicroelectronics	Listing abroad	✓	–
Trivago	Listing abroad	✓	–
UniQure	Listing abroad	✓	–
X5 Retail Group	Listing abroad	✓	✓
Yandex	Listing abroad	✓	✓