Dutch Corporate Governance Code has been updated

Greater focus on long-term value creation and culture

The Hague – Today the Corporate Governance Code Monitoring Committee is publishing the revised Dutch Corporate Governance Code (the Code). The Code was established at the request of the supportive parties of the Code, the Confederation of Netherlands Industry and Employers (VNO-NCW), the Association of Securities-Issuing Companies (VEUO), Eumedion, the Association of Stockholders (VEB), the Federation of Dutch Trade Unions (FNV), the National Federation of Christian Trade Unions in the Netherlands (CNV), and Euronext. The most important change is the central role given to long-term value creation, and the introduction of ‘culture’ as a component of effective corporate governance. In addition, the Code has been updated in a number of other areas. Today the Committee will be presenting the revised Code to Minister Henk Kamp of Economic Affairs. The full text of the revised Code can be found on the homepage of the Committee (www.commissiecorporategovernance.nl).

Jaap van Manen, chairman of the Corporate Governance Code Monitoring Committee: “The adoption of this revised Code has been preceded by a comprehensive consultation process, for which the Committee has published a proposal for revision on 11 February 2016. The comments on the proposal, exceeding one hundred in total, and the conversations held with stakeholders have been particularly valuable and have led to modifications and improvements regarding certain parts of the proposed text. In the Code, we have placed greater emphasis on management board members’ and supervisory board members’ personal responsibility. They are also required to render account of their functioning in greater detail. We feel this revised Code provides a practice based framework for corporate governance in the coming years.”

The Committee decided to significantly alter the structure of the Code. Instead of dividing the various duties and responsibilities according to function, a thematic structure has been introduced: the focus is now on the topics to be addressed, with the different parts of the Code explaining who fulfills which role within these areas. This helps to clarify relationships and connections, which promotes effective mutual dialogue. The Committee’s explicit intention was to include principles and best practice provisions which are simple and transparent, offer a clear conceptual framework and contribute to long-term value creation for the company and its affiliated enterprise.
Compared to the consultation document published last February a number of adjustments have been made. For example, the text concerning the statement of the board on risks has been improved, the proposal to reward supervisory board members - under strict conditions - in shares has been deleted, and, compared to the proposed text, newly introduced is that companies should render account of the internal pay ratios within the company.

Dutch listed companies are required to report in 2018 on compliance with the revised Code in the 2017 financial year. The condition for this is that the revised Code must be enshrined in Dutch law by the cabinet in 2017. The Code operates according to the ‘comply or explain’ principle. This principle means that listed companies must apply the principles and best practice provisions, or provide reasons as to why they are opting not to apply a particular principle or best practice provision.

The Dutch Corporate Governance Code contains principles and best practices on the governance of listed companies and their accountability to their shareholders on this topic. The Code was adopted in 2003 by the Tabaksblat Committee, and was last revised in December 2008 by the Frijns Committee.

The most important changes, compared to the Code adopted in 2008, are as follows:

- Formulating and implementing views on long-term value creation requires that management board members and supervisory board members act in a sustainable way by making conscious choices about the long-term viability of the strategy being pursued. Attention to long-term value creation is an ongoing process, in which it is essential both to weigh up the interests of the stakeholders and render account of the decisions made. Awareness and anticipation of innovations and new business models is crucial in order to turn ambitions into realities, seize on opportunities and prevent destabilisation.

- The introduction of culture in the Code requires management board members and supervisory board members to create a culture which promotes desired behaviour within the organisation and encourages employees to act with integrity. What this means in concrete terms is that values which fit into the views of the company must be formulated. The management board is required to promote behaviour that is in line with these values, and actively propagate these values through leading by example.

- Provisions that promote insight into the quality of the risk management systems are an important part of the Code. What is new compared to the 2008 Code is that, when reporting on the risk management measures in place, the management board must now look ahead by indicating those risks which may impact on the continuity of the company. In addition, the report of the management board no longer pertains solely to the financial reporting risks, but must cover all material risks that have been identified. This approach is in line with the recent shift toward more comprehensive approaches, such as integrated reporting, in which organisations take into account (or assign greater priority to), and are more transparent about, the risks, opportunities and objectives that relate to the non-financial aspects of doing business.

- In order to strengthen the internal audit function, as part of the risk management system, the supervisory board will be involved more closely in the appointment, evaluation and possible dismissal of the lead internal auditor. The basic principle in the Code is, and remains, that companies should appoint an internal auditor and establish an internal audit department. If a company does not follow this principle, the supervisory board is expected to assess whether adequate alternative measures have been put in place, and provide an explanation as to why these measures are sufficient.

- New emphases have been introduced in the parts of the Code that pertain to the make-up of the management board and the supervisory board, contributing to the checks and balances, effective corporate governance and independent supervision. Diversity in the supervisory board and the management board, in terms of the male-to-female ratio, expertise,
competencies and background, promotes judicious decision-making. More transparency is required about targets, measures taken and results.

- The **term of appointment for supervisory board members** has been adjusted, the basic principle being that supervisory board members are appointed for two four-year periods. Reappointment after this is possible up to a maximum of a further two two-year periods, provided that reasons are given in the report of the supervisory board.

- Another change is the attention the Code devotes to the **executive committee**. If an organisation works with an executive committee, this must be indicated in the annual report, and the procedures in place regulating contact between the supervisory board and the executive committee must be discussed.

- The number of provisions concerning the topic of **remuneration** has been reduced compared to the 2008 Code, and the requirements are less detailed. The company’s remuneration policy must be clear and comprehensible. Furthermore, in establishing the remuneration, the supervisory board must explain the degree to which the remuneration accords with long-term value creation and the social context. When establishing the remuneration, the supervisory board must take the management board member’s own view into consideration. The management board member is expected to reflect on their own remuneration from a broad perspective. Because of these adjustments in the Code more responsibility for remuneration has been given to management board and supervisory board members.

  To the remuneration report the new component had been added that insights must be provided into the internal pay ratios, and it should be stated whether there have been any changes in these ratios compared to the previous financial year. It is up to the company to determine a representative reference group for this comparison.

- The Code is aimed at companies with a two-tier board, but is also applicable to companies with a **one-tier governance structure**. Just like the 2008 Code, the revised Code contains one principle and several best-practice provisions which specifically apply to this governance structure. They form a separate chapter of the Code.

- Minimal changes have been introduced with regard to the **general meeting**. Many developments are currently under way, both at the national and the European level, for example with regard to the position and rights of shareholders, the outcomes of which remain, as yet, unclear. For this reason, the Committee feels that implementing far-reaching substantive changes would be premature at this time.

**For more information, please contact**

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