BLACKROCK

13 April 2016

Corporate Governance Code Monitoring Committee
Secretariat c/o Ms. Irene Heemskerk
PO Box 20401
2500 EK The Hague
The Netherlands

Submitted via email to: secretariat@mccg.nl

Re: Proposal for revision of the Dutch Corporate Governance Code

Dear Irene,

BlackRock[1] is pleased to have the opportunity to respond to the invitation to comment on the Proposal for Revision of the Dutch Corporate Governance Code (the Code) released by the Corporate Governance Code Monitoring Committee (the Committee).

BlackRock represents the interests of its clients by acting in every case as their agent. It is from this perspective that we engage on all matters of public policy. BlackRock supports policy changes, regulatory reform and the evolution of practitioner-led solutions globally where they increase transparency, protect investors and facilitate responsible growth of capital markets.

We welcome the opportunity to address, and comment on, the issues raised by this consultation and we will continue to contribute to the thinking of the Committee on any specific issues that may assist in improving the Code.

BlackRock supports the redesign of the Code to a thematic structure as it provides clear recognition that good corporate governance is not driven by one aspect in isolation but, rather, through the holistic workings of a number of elements. We regard the key themes proposed in this revision of the Dutch Corporate Governance Code to be long-term value creation, risk control and culture. In our view, these are fundamental elements which are interrelated in the pursuit of long-term economic sustainability. We agree that they concern responsibility and accountability and believe that the Code's role should be to provide guidance on how this responsibility should be carried out and accountability apportioned.

Long-term value creation

We firmly support the Committee's positioning of corporate social responsibility as an integral part of a firm's day-to-day operations, rather than a separate or siloed goal. In our CEO's annual letter to companies this year, he articulates that a focus on environmental and social factors, in addition to governance, is essential for generating sustainable returns over the long term. Indeed, it is BlackRock's view that over the long term, environmental, social and governance (ESG) – or extra-financial – factors have real and quantifiable financial impacts. We regard a company's management of its risks, including extra-financial risks, as an indication of management quality and we seek to understand which companies are demonstrating operational excellence in these areas versus their peers.

We further support the Committee's assignment of a clear role for the Supervisory Board in the formation of the Management Board's view on long-term value creation for the company and the formulation of strategy. However, we question whether one discussion per year on the company's strategy is sufficient for the Supervisory Board to carry out this critical responsibility. The value derived from this limited commitment is even more dubious given the Committee's recognition that strategy is not static. BlackRock regards the quality of oversight and risk management at a company as key elements in assessing its long-term economic sustainability. In our engagements with portfolio companies we look for evidence that the Supervisory Board is

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

considering risks that the business faces today, in the medium term and in the long term, and evidence that they and management have put into place controls and processes to mitigate these risks. We look for the Supervisory Board to demonstrate it is also considering how the landscape may change over time and that it is positioning the company to be nimble enough to adapt to this changing environment. In our view, then, strategy should be a discussion point at each Supervisory Board meeting, not just once per year.

Risk control

We are broadly supportive of the proposed revisions in relation to the internal audit function, risk management accountability, the role of the supervisory board and the audit committee, and the matters relating to the external auditor. We believe these amendments strengthen the guidance around the quality of controls and the disclosure on these processes.

We also support the Committee's proposal for the audit committee to assess the robustness of alternative measures which may have been taken in situations where a company has not established an internal audit function. However, we believe the Code should be more explicit in the implicit requirements for those companies that have not designated an internal audit function. We believe these companies should clearly explain what control functions and processes have been established in place of an internal audit function, which parties have responsibility for these processes, and how the relevant information is communicated to the Supervisory Board. In our view, even when a company has chosen not to establish an internal audit function there should still be a group responsible for the elements prescribed to internal audit by the Code. We believe the Code could go further than simply stating the audit committee should annually consider the need for an internal audit function and assess whether adequate alternative measures have been taken.

Culture

We applaud the Committee for its pioneering approach of enshrining culture as a principle within the Code, in part because we regard culture to have an influential role to play in the long-term prospects of a company but equally because we see the development of culture as being the responsibility of the Supervisory and Management Boards. We support the Committee's recognition that the Code should not be prescriptive in determining which standards and values the Supervisory and Management Boards should adopt. Indeed, BlackRock's view is that culture, like corporate governance, is a tool and boards should therefore have a proactive approach to its design based on their strategic goals. Further, we believe that while culture should be evident through leadership (i.e., "tone at the top"), it must also be embedded, reinforced and amplified throughout the organization, for example by hiring processes, talent development programs and training. The Supervisory and Management Boards should consciously develop tools to measure progress over the years against clear goals.

Like the Committee, BlackRock recognizes the merit in a company being able to design its culture in line with its view on long-term value creation. In order for this new principle to be meaningful and transformative, however, we believe it should provide more emphasis on the responsibility of management to develop measures of culture and methodologies to track progress against goals. The principle should also provide more guidance on how management should report progress to the Supervisory Board so that the Supervisory Board can properly assess progress, and in turn report to shareholders. Without this framework, there is the risk that a company's approach to culture becomes a simple reference to a code of conduct and ethics, without relevance to the business, its strategy or the aim of long-term value creation.

Reporting and accountability

We agree with the Committee's position that the "comply or explain" principle is only as strong as the quality of the explanations given by companies in the event of non-compliance. In our view, this extends to reporting on long-term value creation, risk control and culture. We have often described governance as being nuanced and therefore requiring a pragmatic approach by shareholders in order to understand it. This nuance cannot be communicated through boilerplate reporting. Shareholders require meaningful disclosures to enable their understanding of a

BLACKROCK

company's specific circumstances and its choice for a particular approach. We acknowledge the Committee's efforts to establish greater accountability for the Supervisory and Management Boards under each principle, but we believe the Code could be strengthened by providing more guidance around the level of disclosure sought by shareholders. Principles 1.2-1.7 on risk management, internal audit, risk management accountability, the role of the Supervisory Board, and external audit are thorough and we believe it could be useful for the Committee to model the section on accountability for the rest of the principles on this format. This would be particularly helpful in strengthening the principle on culture, as discussed above. From an investor's perspective boilerplate disclosures are an indication that these important themes are not embedded within the core strategy of the company but are instead simply instruments in the company's public relations toolkit.

One important element of accountability which the Committee did not address is the role of the Supervisory Board in dialogue with shareholders. We believe the Committee should have included amendments to acknowledge the evolving expectation shareholders have for the Supervisory Board in this respect. BlackRock regards the Supervisory Board to be the body ultimately accountable to shareholders for the corporate governance practices and strategic direction of a company. As discussed above, we believe these elements are nuanced and require open dialogue to ensure sound understanding by shareholders. In our experience, more and more markets across Europe, such as Italy and Switzerland, are establishing the practice of Supervisory Board (or non-executive director) dialogue with shareholders on matters related to corporate governance, strategy and oversight. As such, we would encourage the Committee to consider the inclusion of best practice principles to promote the evolution of meaningful dialogue between Dutch company Supervisory Board members and their shareholders.

We would welcome further discussion on any of the points we have raised.

Yours faithfully,

Jennifer Law
Vice-President
BlackRock Investment Stewardship
jennifer.law@blackrock.com