



GLASS LEWIS

DCGK Update Consultation

March 2022

To: Dr. Cordula Heldt – Leiterin der Geschäftsstelle; Regierungskommission Deutscher Corporate Governance Kodex

Re: Consultation on the proposed amendments to the German Corporate Governance Kodex

Glass, Lewis & Co. (“Glass Lewis”) appreciates the opportunity to comment on the consultation regarding proposed amendments to Kodex proposed by the Regierungskommission during the consultation process, which commenced in January 2022.

About Glass Lewis

Glass Lewis is the leading provider of independent proxy advice with a global client base of more than 1,300 clients, including the majority of the world's largest pension plans, mutual funds, and asset managers, who collectively management more than \$40 trillion in assets. Glass Lewis empowers institutional investors to make sound voting decision by analysing and assessing corporate governance and material environmental and social risks at public companies domiciled in approximately 100 global markets. We provide comprehensive research for all listed companies held in our clients' portfolios. In 2021, this universe included approximately 22,000 global public companies. More information available at www.glasslewis.com.

IVOX Glass Lewis has been a subsidiary of Glass Lewis since 2015. IVOX Glass Lewis continues to service its clients with custom research reports based on clients' policies and methodologies, including the BVI guidelines. As both Glass Lewis and IVOX Glass Lewis have continued to produce reports on German issuers for clients independently and on the basis of different policy guidelines, two separate position papers on the proposed amendments have been submitted.

Glass Lewis is submitting this comment as an interested industry advisor, not on behalf of any of its clients.

Glass Lewis' Views on the Proposed Corporate Governance Kodex

Following our perusal of the consultation documents, we have identified certain proposed amendments on which we would like to provide comment:

Recommendations A.6 and C.1 (ESG Oversight and Skills)

Glass Lewis welcomes the proposed amendments in Recommendations A.6 and C.1.

As part of our nuanced approach in assessing the accountability for and oversight of environmental and social risks, Glass Lewis has tracked disclosure and developed policies regarding the governance of environmental and social risks of publicly listed companies over the past few years.

With our 2021 update to our Continental European policy guidelines, published in November 2020, we announced that we would note a concern when (supervisory) boards of companies listed on major European blue-chip indices do not provide clear disclosure concerning (supervisory) board-level oversight afforded to environmental and/or social issues. Further, we announced that from 2022, we would generally recommend voting against the governance committee chair of a (supervisory) board that fails to provide explicit disclosure concerning the (supervisory) board's role in overseeing these issues.

In 2019, we started to collect data on the governance frameworks adopted by large European companies for overseeing environmental and social risks. In Germany, and in other European countries with a two-tier board structure, we assessed that most companies did not clearly specify how the supervisory board maintains oversight of material environmental and social issues; instead, they generally only provided meaningful information on the role of the management board. In our engagement with German companies, we were regularly told of the supervisory board's role in overseeing environmental and social issues, but it appeared that many companies had yet to realise the value (or investor expectations) of the disclosure of this information. From 2021, we noted a marked improvement in the level of disclosure provided; according to the data collected and insights gained from our engagement, we believe that a large majority of DAX40 companies now have, or are about to establish, a framework on supervisory board level oversight of environmental and social risks.

Similarly, and in line with the proposed amendment to Recommendation C.1., we believe that relevant experience with sustainability is invaluable for all supervisory boards and that companies should clearly disclose how the board as a whole has the relevant skills and experience to be able to satisfactorily conduct its oversight of the company's material environmental and social issues.

Recommendation D.4 (Audit Expertise in Non-Financial Reporting)

In line with best practice, we believe for an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. Accordingly, and based on the societal and regulatory development in the area of non-financial reporting, we believe that the supervisory board and its audit committee should as a whole be literate in reviewing non-financial information in order to be able to fulfil its duty to shareholders in overseeing material environmental and social opportunities, risks, and reporting.

As such, we believe that the proposed inclusion of knowledge and experience in sustainability reporting to the skillset required for audit committee members to be a positive development and that it will help in preemptively aligning the Kodex with impending EU regulation.

Glass Lewis welcomes the opportunity to comment on the proposed amendments to the Kodex and is available to answer any questions the Regierungskommission may have regarding the comments provided above. Additionally, Glass Lewis raises no objection to these comments being published on the DCGK website.

/s/

Marie Römer; Lead Analyst – DACH

/s/

Silvia Gatti; Director of Research – Central and Eastern Europe

/s/

Chris Rushton; Senior Director of Research Policy – EMEA & Latin America