



NORGES BANK
INVESTMENT MANAGEMENT

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Proposed changes to the Corporate Governance Kodex

Thank you for the opportunity to provide our perspectives on the proposed changes to the German Corporate Governance Kodex.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. As of 30 September 2016, the fund was invested in 793 billion euro of assets globally, of which 27.7 billion euro in shares of 205 of the leading German companies. Our basis for providing input is our long-term investment globally and in the German market.

We appreciate how the Commission has been working over the years to gradually improve and update the code. With the proposed changes, the Commission takes further commendable steps which we support.

In particular, we would like to emphasise the importance of robust standards of independence on the supervisory board. This is an area where expectations have been gradually increasing internationally and where the German code currently significantly lags the standards in other major European markets.

Supervisory board independence is important for the trust investors can place in German companies. Deeper trust in corporate governance can play a role in maintaining trust in the German stock market more widely. Unfortunate events in the near history provide evidence that the current code stipulation of supervisory board members' independence is not sufficient. A certain level of independence and transparency thereof is necessary to reassure shareholders that the supervisory board that will step up to its responsibility to protect against improper strategies or actions.

Independence is also important to ensure the company stays effective. From time to time it may be necessary that the supervisory board has the ability to prompt additional review and maybe corrective action. This requires both competencies, freedom to act and the absence of conflicted interests.

Norges Bank Investment Management is a part of Norges Bank – The Central Bank of Norway

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We notice and appreciate that board independence has been taken up as part of the Commission's agenda. The Commission proposes that the company should identify the supervisory board members it regards as independent, upon nomination and regularly during the term. Likewise, we support the suggestions that a CV should be provided, and that a qualification matrix for the shareholder-elected board members should be disclosed. All of these measures are positive additions to the code. Separately and together they provide increased transparency. To some degree, these measures reflect current practices by German companies.

The code should, however, do more to deal with its shortcomings compared to the standards of neighbouring markets.

First, the code should secure robust and transparent identification of factors that may inhibit independence. The code should list board candidates' recent employment, family and business relationships, association with large shareholders and board interlocks among factors that potentially inhibit independence. We believe inclusion of such factors would be a useful guide to companies and investors alike. It would bring the German code in-line with codes in countries like France, the Netherlands, Sweden and the UK.

Second, the code should recommend that the board reports how it has evaluated findings against these factors. Which potential limitations on independence were identified, and how did the board weigh the facts?

Third, the Commission should recommend a certain ratio of independent individuals among the shareholder-elected board members, like what we find in neighbouring markets.

On the basis of such strengthened stipulations of independence, the current suggestions by the Commission on qualifications transparency will gain in importance. Shareholders will then be able to ensure themselves that the supervisory board has a sufficient number of independent members fully equipped to monitor, guide and support management effectively.

We are not advocating that all shareholder elected board members need to be independent, and we would not suggest that independence should trump expertise. However, we do believe that it is in the interest of shareholders, the company and even the wider society that the supervisory board provides effective oversight of the executive branch.

We remain available should you like to explore these issues further.

Yours sincerely

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