

Expectations to companies on
Anti-Corruption



Objective

Comprehensive anti-corruption work is important for the DNB Group. Corruption is widespread globally, and it is costly for the society, for individual companies, and for shareholders. The high costs for society include negative impacts on freedom, money, and health, and it costs lives (in the worst cases). There is also a strong link between corruption and inequality, as well as corruption being an obstacle to fighting dangerous changes to the climate system.^{1 2 3} Ultimately, fighting corruption is an important enabler in reaching many of UNs 17 Sustainable Development Goals (SDGs), and corruption is directly addressed in goal 16 (target 16.5): “Substantially reduce corruption and bribery in all their forms”.^{4 5} For DNB Asset Management (DNB AM), the starting point is the DNB Group’s Standard for Responsible Investments when considering anti-corruption work.

The Standard shall ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm, and other actions which may be perceived to be unethical and/or unsustainable. It shall also ensure that assessments of risks and opportunities arising from Environmental, Social and Governance (ESG) factors are integrated into the investment decision-making process. At DNB AM, we exercise our ownership rights in line with international norms and standards, including the UN Global Compact, UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises. Our responsible investment approach utilises tools including standard setting, exclusions, active ownership (through engagement and voting), and ESG integration.

Our expectations call for a high level of transparency around how companies identify, assess, and manage their corruption risks. High levels of transparency give DNB AM the opportunity to utilize the information in our company analysis and as an input to investment decision-making. Finally, companies may be excluded from our investment universe as a last resort if they do not adequately manage their anti-corruption work.

Definition and scope

A broad definition of corruption used by the DNB Group is: Corruption is the misuse of power for one’s own/the company’s benefit. Many types of wrongdoings, including money laundering⁶, are typically included in the wider definitions of corruption.

In a narrower sense, a standard definition of serious (or gross) corruption typically encompasses two key elements:

1. Gives or offers an advantage to unduly influence (or attempts to do so) a public servant in the execution of public duties – or a person in the private sector who takes decisions or has influence on decisions which may bring the company an undue advantage. Alternatively demands or receives bribes.
2. The corrupt acts are conducted in a systematic or comprehensive manner.

Introduction to corruption and anti-corruption work practices

Corruption can be very costly for companies. For example, fines and legal costs incurred by companies affected by the US Foreign Corrupt Practices Act (FCPA) can run into billions of Norwegian kroner. Often these direct costs of corruption are minor compared to the potential long-term damage, as companies may also be exposed to many other costs, including loss of market access and reputational damage.

From a shareholder/investor point of view, corruption is a material ESG factor to consider across all global industries. There is also emerging empirical evidence that anti-corruption work as part of a broader governance focus can enhance portfolio return.

In many cases, corruption scandals serve as a catalyst for major reforms to a company’s anti-corruption programs. However, some companies are repeat offenders; this is most common in cases where the initial fine is small and fails to serve as a strong deterrent. In the worst cases, where our analysis shows that the risk

¹<http://www.worldbank.org/en/topic/governance/brief/anti-corruption>

²https://www.transparency.org/news/feature/corruption_and_inequality_how_populists_mislead_people

³<https://www.transparency.org/en/blog/5-ways-take-back-power-fight-against-climate-change>

⁴<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

⁵https://www.transparency.org/news/feature/no_sustainable_development_without_tackling_corruption_SDG_16

⁶[http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))

of (further) serious corruption is significant, companies may be excluded from the investment universe of DNB.

Expectations to companies on anti-corruption work

Our expectations are relevant for all companies within our investment universe and are viewed by us as best-practice guidance. See further details below, as well as the appendix, for more details on relevant international standards.

In their anti-corruption work, we expect companies to:

1. To be **proactive** in their anti-corruption work including respecting international laws, norms, and standards as well as applicable national laws. **A key Board-level responsibility** is to establish the appropriate anti-corruption policies and procedures – in line with best practice.^{7 8 9}
2. To establish **clear anti-corruption policies and procedures that are well aligned with the level of corruption risk the entity faces**. Anti-corruption policies should be guided by a comprehensive risk assessment relating to the potential for corruption in all aspects of business operations including customers, subcontractors, and suppliers. Important elements in this risk assessment are company-specific industry and geographical risks, as well as the use of channels (intermediaries) and joint ventures.
3. To ensure that their **anti-corruption work is well integrated into all business operations**. Important elements are: A strong tone from the top, an effective compliance function (with direct reporting to the Board); clear communication of the policies internally and to business partners; appropriate anti-corruption training for all employees (and where appropriate, business partners and suppliers); secure whistleblower mechanisms; and a process for continuous review and improvement of the anti-corruption work. Companies should also include clauses on the compliance with criteria on corruption in their contracts with subcontractors and suppliers. Finally, companies in the financial sector should establish an anti-money laundering program that includes policies and measures to address the risk of laundering money derived from corrupt activity.
4. **To be transparent in their anti-corruption work** including: Publicly disclosing anticorruption policies and processes; report on incidents (and the company's response); and have periodic independent high-quality assurance of the anti-corruption program (at minimum, the main conclusions should be made public). Finally, irregularities identified, and actions taken, shall be disclosed to relevant authorities.
5. **To be transparent in additional relevant aspects** including: Country-by-country reporting on taxes and government payments. Public disclosure regarding a company's ultimate beneficial owner or owners including full name, date of birth, nationality, jurisdiction of residence, number, and categories of shares, and, if applicable, the proportion of shareholding or control.

Assessment criteria

In screening, assessing, and engaging with companies concerning possible serious corruption, the following questions may be important:

- *Are the past incidents of corruption (or the corruption likely to take place) systematic and/or comprehensive in nature?*

⁷ Best practice by Transparency International: https://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery

⁸ See also the PwC report on corruption presented to the Norwegian Ministry

of Trade, industry and Fisheries in 2016 (from page 43): <https://www.regjeringen.no/contentassets/1e258223629a4b69999cab9b82ccd35f/rapport-narings--og-fiskeridepartementet-01.09.2016.pdf>

⁹ Finally, NBIM's expectation document 2022: <https://www.nbim.no/contentassets/9af1e01021a642b3aa162d140dd0069a/anti-corruption-2022.pdf>

RESPONSIBLE INVESTMENTS

- *How has the company responded to past incidents or allegations of corruption? Have the members of the management and/or the Board involved in past corruption incidents been removed from their positions?*
- *Is the company's standard of corporate governance well aligned with the corruption risk the entity faces? Including the necessary oversight and independence of the Board?*
- *Does the company have a zero-tolerance policy for corruption (made public)?*
- *Has the company implemented effective anti-corruption procedures – that are organized in a way that enables it to effectively prevent, detect, and respond to corruption problems (in line with best practice)? Is there strong commitment from the top management (and have they established clear lines of authority)? Is the anti-corruption work well aligned with the level of corruption risk the entity faces?*
- *Has the company implemented a management system which results in immediate actions if suspicions arise that employees or suppliers are involved in corruption? Does the company integrate criteria on corruption into its procurement and operational policies (including compliance with criteria on corruption in their contracts with subcontractors and suppliers)? Is there a secure whistle blowing mechanism (without reprisal)? Are there comprehensive training schemes including tailored training provided to all directors?*
- *Where appropriate, are the anti-money laundering policies and practices in line with best practice?*
- *If the company has been unable to ensure that a joint venture or consortium has a program consistent with its own, does it have a plan for taking appropriate action if corruption occurs or is thought to have occurred?*
- *Is the company transparent in its anti-corruption work, including having periodic, independent, high-quality assurance of the anti-corruption program (with, at minimum, the main conclusions made public)? Does the company publicly report on its lobbying practices?*
- *In summary, does there appear to be a significant risk of serious corruption taking place in the next few years?*

Appendix: Laws, norms, and standards relevant for anti-corruption work that DNB AM expects companies to be compliant with.

See also the general norms and standards mentioned in the introduction.

International Standards and Initiatives	Comments
UN Global Compact - 10th principle ¹⁰	"Businesses should work against corruption in all its forms, including extortion and bribery."
United Nations Convention against Corruption ¹¹	This convention requires states to implement anti-corruption measures (the only legally binding universal anti-corruption instrument). The Convention covers five main areas: Preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. It covers many different forms of corruption, such as bribery, trading in influence, abuse of functions, and various acts of corruption in the private sector.
OECD Anti-bribery Convention ¹²	This convention establishes legally binding standards to criminalize bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective. It is the only international anti-corruption instrument focused on the 'supply side' of the bribery transaction. See also the 2009 Recommendation of the Council for Further Combating Bribery, the 2009 Recommendation on the Tax Deductibility of Bribes to Foreign Public Officials and other related instruments. Finally, note the 2021 Anti-Bribery Recommendation.
The OECD Guidelines for Multinational Enterprises ¹³	The most recent update was completed in 2011 - chapter VII deals with combating bribery, bribe solicitation and extortion.
EU: Convention on fighting corruption involving officials of the EU or officials of Member states (1997), Framework Decision on combating corruption in the private sector (2003) ¹⁴	These are the two most important conventions from the EU concerning corruption. The EU has a general right to act in the field of anti-corruption policies, within the limits established by the Treaty on the Functioning of the European Union.
ISO 37001: Anti-bribery management systems ¹⁵	This ISO-standard specifies requirements and provides guidance for establishing, implementing, maintaining, reviewing, and improving an anti-bribery management system. The system can be stand-alone or can be integrated into an overall management system.
The Foreign Corrupt Practices Act – FCPA ¹⁶	Breaching this US law may have large financial consequences. Since 1977, the anti-bribery provisions of the FCPA have applied to all U.S. persons and certain foreign issuers of securities. With the enactment of certain amendments in 1998, the anti-bribery provisions of the FCPA now also apply broader - to foreign firms and persons who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States. The FCPA also requires companies whose securities are listed in the United States to meet its accounting provisions.
UK Bribery Act ¹⁷	This UK law was introduced to update and enhance UK law on bribery including foreign bribery to address better the requirements of the 1997 OECD anti-bribery Convention. It is now among the strictest legislation internationally on bribery and goes significantly further than the provisions of FCPA - in particular covering all bribery.

¹⁰<https://www.unglobalcompact.org/what-is-gc/mission/principles>

¹¹<https://www.unodc.org/unodc/en/treaties/CAC/>

¹²<http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

¹³<https://www.oecd.org/corporate/mne/>

¹⁴<https://eclan.eu/en/eu-legislatory/convention-of-26-may-1997-on-the-fight-against-corruption-involving-officials-of-the-european-communities-or-officials-of-member-states-of-the-european-union>

¹⁵<https://www.iso.org/iso-37001-anti-bribery-management.html>

¹⁶<https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act>

¹⁷<https://www.legislation.gov.uk/ukpga/2010/23/contents>

The Norwegian Criminal Code: § 387- § 389¹⁸	Norway has a strict definition of corruption: To give, offer, demand, receive or accept an offer of improper advantage in connection with a job, office, or commission. Norwegian companies with international activities should be aware that both the US FCPA and the UK's Bribery Act have broad scopes and under certain circumstances may apply to Norwegian companies. In addition, Norwegian corruption rules may also apply to acts committed abroad.
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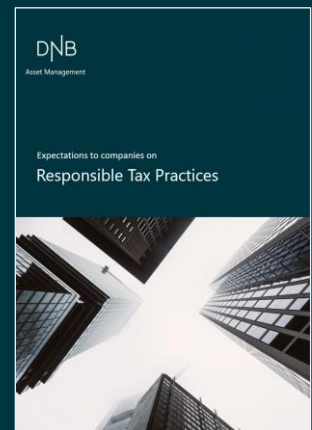
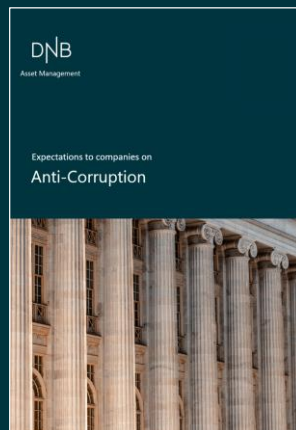
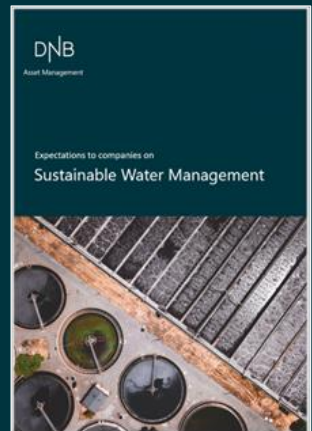
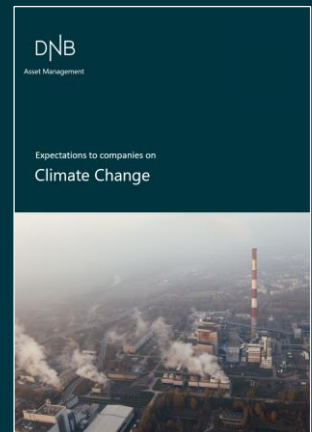
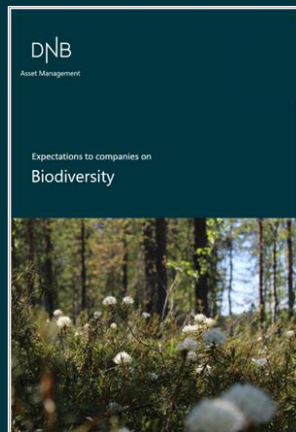
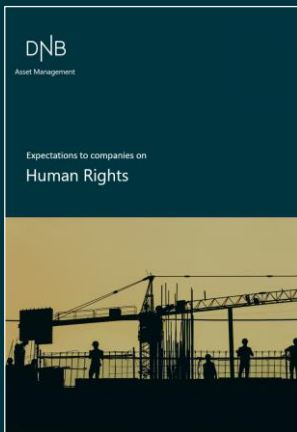
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¹⁸ https://lovdata.no/dokument/NL/lov/2005-05-20-28/KAPITTEL_2-15#§372

DNB Asset Management

Below are our additional expectation documents.

See our website <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions> for a full and updated list of our expectations on sustainability topics.



DNB