

European Commission
DG Justice and Consumers
1049 Brussels
Belgium

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European Commission consultation on sustainable corporate governance

We refer to the European Commission's consultation on the sustainable corporate governance initiative, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with assets valued at NOK 10,914 billion at the end of 2020. The objective of the fund is to obtain the highest possible return and to manage the investment portfolio responsibly as laid out in the mandate given by the Norwegian Ministry of Finance.

We support the ambition of this initiative to encourage long-term thinking and to incorporate environmental, social and governance (ESG) considerations in corporate decision-making. We manage the savings on behalf of future generations, and we therefore have a very long investment horizon. We note that globally an increasing share of listed companies is owned by pension funds and other long-term savers. These shareholders are dependent on sustainable development for a long-term return. We believe that over time our interests as an investor for future generations and those of society are aligned.

We use our rights as a shareholder to promote long-term value creation and responsible business conduct. We have clear expectations for how companies should address long-term risks related to climate change, water management, children's rights, human rights, tax transparency, anti-corruption and ocean sustainability.¹ We integrate ESG considerations into the management of the fund, and in 2020, we discussed our expectations on environmental and social issues in 1,143 meetings with 635 companies, and good governance in 1,273 meetings with 703 companies.

We agree with the initiative in that executive remuneration should give the CEO the right incentives to focus on long-term value creation. Share-based remuneration is in our view an efficient mechanism to align the interests of management with those of shareholders, and to

¹ NBIM expectation [documents](#).



promote long-term value creation. We prefer simple and transparent remuneration plans that include a substantial equity component with a lengthy lock-in period.

The board should guide company strategy, monitor management performance and provide accountability to shareholders. This requires the board collectively to have a comprehensive understanding of the company's industry, business and operational context, including relevant sustainability matters. We believe the board is responsible for ensuring that it can perform its duties effectively. Prescriptive requirements for directors' ESG expertise will be difficult to implement and may impede board formation. As a shareholder, we will hold the board to account for the financial as well as environmental and social outcomes of their decisions. In 2020, we voted against board members at 160 companies for failures of oversight.

Shareholder voting and due diligence are two areas in particular that would benefit from further EU harmonisation.² We welcome the initiative to develop legal requirements for a mandatory due diligence duty across a company's operations and supply chain. Voluntary due diligence standards have not yet led to the desired standard of corporate due diligence, and harmonisation at the EU level would promote a level playing field for companies. We support a principles-based, cross-sectoral, approach to the development of a due diligence duty.

We believe companies should fulfil their objective of long-term value creation within accepted principles for responsible business conduct. Companies should understand the broader consequences of their operations on society and the environment, set their own priorities to address these, and account for associated outcomes. We expect companies to follow the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and conduct ongoing due diligence. We support the intention to base EU legislation on existing international standards for due diligence and encourage alignment of definitions with these international standards.

Improving the ability of shareholders to exercise their ownership rights would support shareholders in promoting long-term value creation and responsible business conduct. We encourage the European Commission to consider further EU harmonisation of rules that would remove obstacles to cross-border voting and streamline the filing process for shareholder proposals.

We have responded to the Commission's online survey to provide more specific feedback and remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

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² [Letter](#) to the European Commission, 9 July 2020.

