



NORGES BANK
INVESTMENT MANAGEMENT

Regierungskommission Deutscher Corporate Governance Kodex
c/o Deutsches Aktieninstitut e.V.
Senckenberganlage 28
60325 Frankfurt am Main

Date: 17.12.2018

Revisions to the German Corporate Governance Code

We refer to the draft revised German Corporate Governance Code, published on 6 November 2018, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. NBIM is globally diversified, with EUR 35.8 billion invested in equities in Germany at the end of 2017. We regard effective corporate governance and the protection of minority shareholder rights as a necessary requirement to promote the fund's long-term financial interests.

Over the years, NBIM has had constructive exchanges with the Commission, and we appreciate its openness to investors' perspectives. We welcome the revision of the Code, and we support the consolidation of its principles and provisions. In this letter, we would like to highlight some proposals which we believe substantially improve the corporate governance framework.

Independence of supervisory board members

The independence of board members is well established globally as a measure of good corporate governance and protection of minority shareholders. Our view is that the majority of shareholder-elected board members in non-controlled companies should be independent from management, major owners and related third parties.¹

We support the introduction into the Code of more stringent criteria for the assessment of independence. We also welcome the new expectation that more than half of shareholder-elected board members should be independent from the company and management, including the board chair and the chair of the remuneration committee. Furthermore, we support the requirement for the board chair and the audit committee chair to be independent of any controlling shareholder.

¹ NBIM, [global voting guidelines](#), 2016

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CEO remuneration

NBIM supports a simple, transparent and long-term approach to CEO pay. We prefer that part of the total annual remuneration is paid in cash, and a substantial proportion is settled in shares of the company, locked in for 5-10 years, even beyond resignation or retirement.² Long-term equity exposure should replace multi-year performance conditions, which often result in unnecessary complexity. We expect the board to disclose the CEO's total annual remuneration and set a ceiling for the next year.

We support the introduction into the Code of a long lock-in period for equity remuneration, which would last beyond employment and replace more complex incentive plans. We also support the transparency on annual total remuneration and the stricter approach to pensions and benefits. These proposals are important steps towards transparent remuneration and serve the purpose of aligning the CEO with shareholders' interests. We also welcome the material lengthening of the time horizon for CEO remuneration. Finally, we agree that the supervisory board should be responsible for designing a remuneration plan that suits the company.

Board election terms

As noted by the Commission, the current maximum length of the election term for board members in Germany is five years, which is quite long by international standards. As a minority shareholder, we prefer more frequent board elections, ideally every year. Shorter board terms allow for a refreshment of the board when needed. The accountability of board members to shareholders will be strengthened when they stand for re-election more often. This does not mean that we wish to shorten the board tenure of individual members, as they can be re-elected by shareholders.

On this basis, we welcome the proposed shortening of the maximum board term to three years as a significant step in the right direction.

Time commitment of board members

Our position is that board members should have sufficient time to fulfil their responsibilities effectively and should aim at attending all meetings.³ Therefore, we recommend that board members of listed companies do not serve on more than five boards at the same time. Furthermore, the chair of a leading company should not chair the board of another company, given his or her extended responsibilities. The company should disclose the external commitments of each board member, as well as individual meeting attendance rates.

We support the introduction of a limit of five board mandates in listed companies for a supervisory board member. We also welcome the introduction of comprehensive disclosure of individual board meeting attendance.

² NBIM, [position paper](#) on CEO remuneration, 2017

³ NBIM, [position paper](#) on time commitment of board members, 2018



Sustainability

NBIM considers that boards should address and disclose information on material sustainability issues that could affect companies' performance and future prospects.⁴ They should understand the broader social and environmental consequences of business operations, set their own priorities to address these, and account for associated outcomes. Boards should, moreover, fulfil their objective within the principles for responsible business conduct.

We welcome the reference to environmental and social factors in the revised Code. We agree that the board should ensure that 'the potential impact from these factors on company strategy and operating decisions is identified and addressed'.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully

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⁴ See NBIM's expectation documents on climate change, water management, ocean sustainability, human rights, children's rights, tax and transparency, and anti-corruption. <https://www.nbim.no/en/responsibility/risk-management/>