



NORGES BANK
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Revisions to the UK Corporate Governance Code

We refer to the consultation of the Financial Reporting Council (FRC) on a revised UK Corporate Governance Code, published on 5 December 2017, 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 GBP 50.7 billion invested in equities in the UK at the end of 2017. We regard the protection of minority shareholder rights as a necessary requirement to safeguard and promote the fund's long-term financial interests.

In addition to our response to the FRC's questionnaire, we would like to take this opportunity to make a few general remarks.

We recognise the importance of the UK Code in promoting high standards of corporate governance, and its role in influencing frameworks in other jurisdictions. The focus on best practice and the flexibility provided by "comply or explain" are key reasons for its success. As an investor, we are interested in hearing companies' explanations when they see a legitimate reason not to observe the Code's recommendations. We support the proposed restructuring of the Code, which will reinforce its principles-based approach.

As a globally diversified investor, we depend on the effective functioning of company boards to promote the interests of all shareholders. We support the FRC's focus on board independence as a core element of good corporate governance. We expect a majority of shareholder-elected board members in listed companies to be independent of management, dominant shareholders and business partners. This is an important safeguard to protect minority shareholders against potential abuse. We also agree with the FRC that the board should be diverse, and thereby exposed to new ideas and expertise from individuals without links to the company.

While Provision 15 of the current Code provides very useful criteria to determine board independence, we believe that there is no perfect measure of true independence and so

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these criteria work better as “flags” rather than strict requirements. In addition, we do not think it is always necessary for the board chair to be independent throughout his or her tenure. We consider that the current requirement for independence upon appointment is a reasonable measure that balances experience and independence.

We welcome the approach on executive remuneration. We support the FRC’s proposals on minimum holding periods for equity-based remuneration of five years. We also welcome the suggestion that an even longer lock-in period, including post-employment, may be appropriate. The FRC’s focus on clarity, simplicity and long-term shareholding is in line with our position. Following the introduction of “say on pay” in many markets, we published our views on executive remuneration in 2017, emphasising transparency on total pay and long-term shareholding.¹

With such a lock-in mechanism in place, we recommend that companies abandon performance conditions for long-term shareholding. It is our view that long-term shareholding will better align CEO and shareholder interests than so-called long-term incentive plans with performance conditions. Substantial long-term equity exposure reinforces the intrinsic motivation of the CEO to succeed and contribute. It removes the distractions embedded in the design of many of the current incentive plans.

Finally, we support the Code’s general assertion of the differing roles of board and management. At the same time, we note that some of the proposed changes may blur the division of responsibilities, in particular having the remuneration committee of the board oversee all pay structures throughout the company. We believe that operational tasks should remain the responsibility of management rather than the board.

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

Yours sincerely

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Enclosure: Response to consultation questions

¹ For more information on NBIM’s position on executive remuneration, please refer to our position paper from April 2017, available at www.nbim.no/en/responsibility/our-voting-records/position-papers/ceo-remuneration/