

Guidelines for observation and exclusion from the Government Pension Fund Global

This translation is for informational purposes only. Legal authenticity remains with the original Norwegian version. The Norwegian version, *Retningslinjer for observasjon og utelukkelse fra Statens pensjonsfond utland*, can be found on lovdata.no. This unofficial English version is last updated 17 February 2017.

Adopted 18 December 2014 by the Ministry of Finance pursuant to the Royal Decree of 19 November 2004 and section 2, second paragraph, and section 7 of Act no. 123 of 21 December 2005 relating to the Government Pension Fund. Amended 21 December 2015, 1 February 2016 and 31 January 2017.

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Section 1. Scope

(1) These guidelines apply to the work of the Council on Ethics for the Government Pension Fund Global (the Council on Ethics) and Norges Bank (the Bank) on the observation and exclusion of companies from the portfolio of the Government Pension Fund Global (the Fund) in accordance with the criteria in sections 2 and 3.

(2) The guidelines cover investments in the Fund's equity and fixed-income portfolios.

(3) The Council on Ethics makes recommendations to the Bank on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6).

(4) The Bank makes decisions on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6). The Bank may on its own initiative make decisions on observation and exclusion and on the revocation of such decisions; cf. section 2(2)-(4).

Section 2. Criteria for product-based observation and exclusion of companies

(1) The Fund shall not be invested in companies which themselves or through entities they control:

- a) produce weapons that violate fundamental humanitarian principles through their normal use
- b) produce tobacco
- c) sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global, section 3-1(2)(c).

(2) Observation or exclusion may be decided for mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal.

(3) In assessments pursuant to subsection (2) above, in addition to the company's current share of income or activity from thermal coal, importance shall also be attached to forward-looking assessments, including any plans the company may have that will change the share of its business based on thermal coal and the share of its business based on renewable energy sources.

(4) Recommendations and decisions on exclusion of companies based on subsections (2) and (3) above shall not include green bonds issued by the company in question where such bonds are recognised through inclusion in specific indices for green bonds or are verified by a recognised third party.

Section 3. Criteria for conduct-based observation and exclusion of companies

Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

- a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour
- b) serious violations of the rights of individuals in situations of war or conflict
- c) severe environmental damage
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions
- e) gross corruption
- f) other particularly serious violations of fundamental ethical norms.

Section 4. The Council on Ethics

(1) The Council on Ethics consists of five members appointed by the Ministry of Finance (the Ministry) after receiving a nomination from the Bank. The Ministry also appoints a chair and deputy chair after receiving a nomination from the Bank. The Bank's nomination shall be submitted to the Ministry no later than two months prior to the expiry of the appointment period.

(2) The composition of members shall ensure that the Council on Ethics possesses the required expertise to perform its functions as defined in these guidelines.

(3) Members of the Council on Ethics shall be appointed for a period of four years. Upon the initial appointment, the Ministry may adopt transitional provisions.

(4) The Ministry sets the remuneration of the members of the Council on Ethics and the Council on Ethics' budget.

(5) The Council on Ethics has its own secretariat, which administratively is under the Ministry. The Council on Ethics shall ensure that the secretariat has appropriate procedures and routines in place.

(6) The Council on Ethics shall prepare an annual operating plan, which shall be submitted to the Ministry. The operating plan shall describe the priorities set by the Council on Ethics for its work; cf. section 5.

(7) The Council on Ethics shall submit an annual report on its activities to the Ministry. This report shall be submitted no later than three months after the end of each calendar year.

(8) The Council on Ethics shall evaluate its work regularly.

Section 5. The work of the Council on Ethics on recommendations concerning observation and exclusion

(1) The Council on Ethics shall continuously monitor the Fund's portfolio, cf. section 1(2), with the aim of identifying companies that contribute to or are responsible for production or conduct as mentioned in sections 2 and 3.

(2) The Council on Ethics may investigate matters on its own initiative or at the request of the Bank. The Council on Ethics shall develop and publish principles for the selection of companies for closer investigation. The Bank may adopt more detailed requirements relating to these principles.

(3) The Council on Ethics shall be free to gather the information it deems necessary, and shall ensure that each matter is thoroughly investigated before making a recommendation regarding observation, exclusion or revocation of such decisions.

(4) A company that is being considered for observation or exclusion shall be given an opportunity to present information and opinions to the Council on Ethics at an early stage of the process. In this context, the Council on Ethics shall clarify to the company what circumstances may form the basis for observation or exclusion. If the Council on Ethics decides to recommend observation or exclusion, its draft recommendation shall be presented to the company for comments; cf. section 7.

(5) The Council on Ethics shall regularly assess whether the basis for observation or exclusion still exists. In light of new information, the Council on Ethics may recommend that the Bank revoke an observation or exclusion decision.

(6) The Council on Ethics shall describe the grounds for its recommendations to the Bank; cf. sections 2 and 3. The Bank may adopt more detailed requirements relating to the form of such recommendations.

(7) The Council on Ethics shall publish its routines for the consideration of possible revocation of an observation or exclusion decision. Excluded companies shall be informed specifically of these routines.

Section 6. Norges Bank

(1) The Bank shall make decisions on observation and exclusion in accordance with the criteria in sections 2 and 3 and on the revocation of such decisions, after receiving recommendations from the Council on Ethics. The Bank may on its own initiative make decisions on observation and exclusion in accordance with section 2(2)-(4) and on the revocation of such decisions.

(2) In assessing whether a company is to be excluded under section 3, the Bank may consider factors such as the probability of future norm violations, the severity and extent of the violations and the connection between the norm violation and the company in which the Fund is invested. The Bank may also consider the breadth of the company's operations and governance, including whether the company is doing what can reasonably be expected to reduce the risk of future norm violations within a reasonable time frame. Relevant factors in these assessments include the company's guidelines for, and work on, safeguarding good corporate governance, the environment and social conditions, and whether the company is making a positive contribution for those who are or have been affected by the company's conduct.

(3) Before making a decision on observation and exclusion in accordance with section 6(1), the Bank shall consider whether other measures, including the exercise of ownership rights, may be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons. The Bank shall consider the full range of measures at its disposal and apply the measures in a coherent manner.

(4) Observation may be decided when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons.

(5) The Bank shall ensure that sufficient information is available before making a individual observation, exclusion or revocation decision.

(6) The Bank shall regularly assess whether the basis for observation or exclusion still exists.

Section 7. Exchange of information and coordination between the Bank and the Council on Ethics

(1) To help ensure the most coherent use of measures possible in the context of promoting responsible management, the Bank and the Council on Ethics shall meet regularly to exchange information and coordinate their work.

(2) Communication with companies shall be coordinated and aim to be perceived as consistent. The Bank shall exercise the Fund's ownership rights. The Bank shall seek to integrate the Council on Ethics' communication with companies into its general company follow-up. The Bank shall have access to the Council on Ethics' communication with companies, and may participate in meetings between the Council on Ethics and companies.

(3) The Council on Ethics may ask the Bank for information on matters concerning individual companies, including how specific companies are dealt with in the context of the exercise of ownership rights. The Bank may request the Council on Ethics to make its assessments of individual companies available.

(4) The Bank and the Council on Ethics shall establish detailed procedures for the exchange of information and coordination to clarify responsibilities and promote productive communication and integration of the work of the Bank and the Council on Ethics.

Section 8. Publication

(1) The Bank shall publish its decisions pursuant to these guidelines. Such public disclosure shall be in accordance with the management mandate for the Fund, section 6-2(4). When the Bank publishes its decisions, the Council on Ethics shall publish its recommendations. When the Bank on its own initiative makes decisions in accordance with section 6(1), the grounds for the decision shall be included in the publication.

(2) The Bank shall maintain a public list of companies excluded from the Fund or placed under observation pursuant to these guidelines.

Section 9. Meetings with the Ministry of Finance

(1) The Ministry, the Bank and the Council on Ethics shall meet at least once a year. The information exchanged at such meetings shall be part of the basis for the reporting on responsible management included in the annual report to the Storting (the Norwegian parliament) on the management of the Fund.

(2) The Ministry and the Council on Ethics shall meet at least once a year. The following matters shall be discussed at the meetings:

- a) activities in the preceding year
- b) other matters reported by the Ministry and the Council on Ethics for further consideration.

Section 10. Power of amendment

The Ministry may supplement or amend these guidelines.

Section 11. Entry into force

(...)

Section 12. Transitional provisions

(1) Recommendations from the Council on Ethics which the Ministry has received, but not finally processed, by 1 January 2015 shall:

- a) where the matter concerns a company in the Fund's portfolio, be sent back to the Council on Ethics for consideration of further handling in accordance with these guidelines
- b) where the matter concerns a company not included in the Fund's portfolio, be taken note of by the Ministry. Such recommendations shall be made public.

(2) The Bank may make decisions on the exclusion of securities that are not in the investment portfolio on 1 February 2016 and that fall under section 2(2)-(4). In such cases, decisions and the grounds for such decisions shall be made public in accordance with section 8.