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1 Executive summary

Under the Government Pension Fund Act, the Ministry of Finance has been given formal responsibility for the management of the Fund, which comprises the Government Pension Fund Global (GPFG) and the Government Pension Fund Norway (GPFN). Operational management of the GPFG and the GPFN is carried out by Norges Bank and Folketrygdfondet, respectively, within mandates stipulated by the Ministry of Finance.

The investment strategy and framework are defined by the Ministry of Finance, with key choices having been endorsed by the Storting. Norges Bank and Folketrygdfondet make investment decisions and exercise ownership rights independently of the Ministry. A clear division of roles highlights responsibilities. The governance structure must ensure that key decisions affecting risk and return, as well as decisions regarding the responsible investment framework, are endorsed by the Fund's owners, represented by the Government and the Storting. At the same time, there must be sufficient delegation of authority to ensure that operational management decisions are made close to the markets in which the Fund is invested.

The Government Pension Fund belongs to the people of Norway. The purpose of the savings is to support the funding of pension expenditures under the National Insurance Scheme, and to further long-term considerations in the spending of government petroleum revenues. The investment objective is to achieve the highest possible return, given an acceptable level of risk. A clear financial objective, together with sound long-term management, serves to ensure that the Fund may contribute to the financing of welfare for both current and future generations. Within the overarching financial objective, the Fund shall be managed responsibly. Responsible investment forms an integral part of the management of the Government Pension Fund. Satisfactory long-term return is considered to depend on sustainable development. In this white paper, the responsible management of the Fund is discussed, including the GPFG tax and transparency efforts and the Ministry's conclusions on the Ethics Committee recommendations.

The GPFG forms an integral part of the fiscal budget and the fiscal policy framework. The government net cash flows from the Norwegian petroleum sector are in their entirety transferred to the Fund, whilst withdrawals to fund the non-oil fiscal budget deficit are determined by

resolutions of the Storting. Over time, the Fund has become an ever more important source of funding for public expenditure. The fiscal policy guidelines require petroleum revenue spending to over time correspond to the expected real rate of return on the GPFG, estimated to 3 percent. The guidelines further stipulate that petroleum revenue spending in any given year shall be adapted to the economic situation.

The coronavirus pandemic has caused historically deep setbacks in the Norwegian and the global economy. Comprehensive fiscal policy measures have been adopted to limit the negative impact. Whilst the economic policy responses in other countries are predominantly funded by government borrowing, Norway has temporarily increased its petroleum revenue spending in line with the fiscal policy guidelines. In 2020, net transfers of NOK 298 billion were made from the Fund in order to cover the non-oil fiscal deficit, compared to net transfers of NOK 18 billion deposited into the Fund in 2019.¹ Large net transfers from the Fund are also planned for 2021 in order to reduce the negative impact of the coronavirus pandemic.

However, economic support measures funded by net transfers from the Fund are not without costs. Persistently large budget deficits cannot be run without detriment to the sustainability of government finances in the long run. The Government's roadmap out of the crisis involves offering compensation when necessary, but scaling back the economic support in order to provide activity incentives as soon as the situation permits. The increased petroleum revenue spending during the crisis shall be reversed when the economic situation is normalised, and is not to contribute to a permanent increase in public expenditure. This will ensure scope for active fiscal policy in response also to future setbacks in the Norwegian economy

¹ The capital actually transferred between government accounts and the GPFG is based on estimates of non-oil deficits and net cash flows from petroleum activities. Final figures may deviate from the estimates, and the difference is transferred to or from the GPFG in the following year. This implies that actual transfers in the following year may deviate somewhat from financial accounts.

Large increases in the Fund value over the last two decades has offered scope for a significant increase in petroleum and fund revenue spending over the fiscal budget. Lower petroleum revenues will eventually reduce fund capital growth and thereby restrict the budgetary room for manoeuvre, cf. the white paper on *Long-term Perspectives on the Norwegian Economy 2021*.² Historically, large net petroleum revenue transfers to the Fund have increased the Fund value, even during periods of stock market decline. In the coming years, periods without growth in the nominal value of the Fund must be expected. Without the prospect of major net transfers to the Fund, developments in Fund value will increasingly be determined by the global financial markets. As welfare spending increasingly has been funded by the return on the fund capital, public finances have become increasingly more vulnerable to fluctuations in the international financial markets. The current, low interest rate level may, when considered in isolation, indicate low expected return on the Fund's fixed-income investments. Future equity returns are also uncertain, and the long-term effects of the coronavirus pandemic implies there is more uncertainty attached to future returns than usual. Increased vulnerability and reduced Fund growth prospects suggest that caution should be exercised in the continued phase-in of Fund revenues into the Norwegian economy.

Experience suggests we must be prepared for considerable financial market fluctuations. The Government Pension Fund is generally well placed to absorb such fluctuations. Transparency and broad endorsement of key investment strategy aspects provide understanding of the risk assumed in the investment management. The annual white papers on the Government Pension Fund contribute to such endorsement. This establishes a foundation for remaining committed to the chosen strategy, also during periods of considerable financial market turbulence.

Investment strategy

The investment strategies for the GPFG and the GPFN have been developed over time, based on thorough assessments, professional recommendations and practical experience. Key choices have been endorsed by the Storting. The strategy is defined in the Fund mandates and reflected in, inter alia, the composition of the benchmark indices established by the Ministry of Finance. The strategic benchmark index defines a capital allocation between equities and fixed-income securities, and reflects the owner's investment preferences and risk tolerance. The equity share of the GPFG benchmark is 70 percent,

whilst the equity share of the GPFN benchmark is 60 percent. Fixed-income securities account for the remainder of the benchmarks.

The strategy is based on the premise that it is necessary to assume risk in order to achieve a satisfactory return over time. Through their endorsement of the equity share, the Fund's owners, represented by the Government and the Storting, have indicated what is considered an acceptable level of risk. The choice of equity share is the decision with the greatest impact on overall risk in the Fund. A larger equity share entails higher expected return, but also expectations of increased volatility and a higher probability of loss. The investment strategy entails that investments are primarily made in listed markets.

A key premise underpinning the strategy is that overall risk can be reduced by broad diversification of investments across asset classes, regions, countries, industries, companies and issuers. The composition of the equity and fixed-income benchmarks implies that investments are diversified across a large number of stocks and bonds. The benchmark indices have been designed to facilitate close replication at a low cost, and are also used to measure the investment management performance of Norges Bank and Folketrygdfondet.

Most of the Fund risk is determined by general equity and bond market developments. Norges Bank and Folketrygdfondet may deviate somewhat from the benchmark indices in their operational management, within risk limits stipulated in the mandates. Such deviations are used to ensure a cost-effective adoption of the benchmark indices, as well as to exploit distinctive Fund characteristics or advantages to generate excess return. The GPFG management mandate further allows some scope for investments in unlisted real estate and unlisted renewable energy infrastructure.

The investment strategies for the GPFG and the GPFN are discussed in chapters 2.1 and 4.1, respectively (in Norwegian only). Chapter 2.3 addresses the management of the GPFG and the implementation of the investment strategy during the coronavirus pandemic, including the significance of the larger transfers from the GPFG to the fiscal budget, as well as potential effects of the virus outbreak on long-term equity and fixed-income returns (in Norwegian only).

Strong performance in 2020

In order to reduce the negative economic impact of the coronavirus pandemic and the accompanying infection control measures, authorities in many countries launched comprehensive fiscal and monetary policy interventions throughout 2020. After a major stock market decline in the first quarter, low interest rates and large-scale government

² Meld. St. 14 (2020–2021); *Long-term Perspectives on the Norwegian Economy 2021*

support initiatives contributed to a swift recovery later on in the year. The return on the GPFG in 2020 was 10.9 percent, measured in the currency basket of the Fund. The strong performance reflects high equity market return and favourable fixed-income return as a result of declining interest rates. The value of the Fund increased by NOK 825 billion last year, to reach NOK 10,908 billion net of costs.

Returns in the Norwegian stock market in 2020 were somewhat lower than in international markets. This reflected, inter alia, weak performance in the oil and gas sector, which is a key sector on the Oslo Stock Exchange. The return on the GPFN in 2020 was 8.8 percent, measured in NOK. The market value at yearend was NOK 292 billion.

Norges Bank and Folketrygdfondet seek to achieve the highest possible return, net of costs and given an acceptable level of risk, within the limits stipulated by the management mandates from the Ministry of Finance. Last year, the return on the GPFG was 0.27 percentage points higher than the return on the benchmark, whilst the excess return in the management of the GPFN was 0.89 percentage points. The Ministry emphasises the performance over time. The average annual return on the GPFG over the last 20 years has been 0.20 percentage points higher than the return on the benchmark index. The average excess return on the GPFN has been 0.98 percentage points per year since 2007. The Ministry is satisfied with this performance, given the level of risk assumed.

Measured as a proportion of assets under management, management costs last year were 5.1 basis points for the GPFG and 6.3 basis points for the GPFN.

The performance of the GPFG and the GPFN is discussed in chapters 2.2 and 4.2, respectively (in Norwegian only).

The emerging market equity sub-index for the GPFG

In the white paper *The Government Pension Fund 2020*, the Ministry discussed the ongoing review of the composition of the GPFG equity benchmark. The Ministry proposed to modify the geographical adjustment factors, reducing the weight of developed markets in Europe by about 6 percentage points, with a corresponding increase in the weight of North American equities. It was further proposed to maintain the current adjustment factor for emerging markets, thus implying that such markets will carry about the same weight as in the market-weighted FTSE Global All Cap index, on which the GPFG benchmark is based. This was endorsed by the Storting.

It was established in the white paper that there was a need for further assessment of the emerging market investment framework and sub-index.

This is a heterogenous group of markets that are generally characterised by weaker institutions, less transparency and weaker protection of minority shareholders than in developed markets. Moreover, returns are more volatile, whilst risk is more affected by country-specific factors.

The Ministry has previously decided not to include any new markets in the Fund equity benchmark until its composition has been determined. Saudi Arabia and Romania, which were included in the underlying index from the index provider FTSE Russell in March 2019 and September 2020, respectively, are therefore not included in the Fund benchmark index.

Broad investment diversification is a key element of the GPFG investment strategy. The equity benchmark currently includes a considerable number of markets and reflects all major economies. At year-end 2020, the Fund equity benchmark comprised 46 individual markets, 22 of which are emerging markets. The diversification gains from including additional, and often small, emerging markets may be considered limited. The Ministry is of the view that no further markets should be added to the equity benchmark at the present time. This implies that the emerging markets Saudi Arabia and Romania will not be included in the benchmark index at present either. Any inclusion of new markets in the Fund benchmark index should be considered in the context of comprehensive, future reviews of the framework for, and composition of, the benchmark index.

The emerging equity market investment framework and benchmark are discussed in chapter 3.1 (in Norwegian only).

The number of companies in the GPFG equity benchmark

As part of its assessment of the composition of the GPFG equity benchmark, the Ministry has considered whether the number of companies included in the benchmark is appropriate, or whether the number should be reduced. The Ministry has obtained analyses and assessments from Norges Bank and the Council on Ethics, along with analyses from index and analysis provider MSCI.

The number of companies in the Fund equity benchmark has increased over time. The largest increase took place in 2007, when the Ministry decided to include small companies in the benchmark index, which meant that the number of companies increased from just over 2,400 to about 7,000. The number of companies in the GPFG equity benchmark has continued to increase over time, to about 8,800 at year-end 2020.

The market value of the GPFG has increased considerably since 2007. The increase has happened during a period of declining liquidity in many equity markets, making it more challenging to trade large volumes at a low cost. The shares of the smallest companies are often the least liquid, and trading in these may therefore be especially expensive. The smallest companies account for a very small proportion of the aggregate benchmark market value. This may be illustrated by the fact that 25 percent of the number of companies in the benchmark index accounts for no more than 2 percent of the aggregate benchmark market value. Consequently, the diversification gains from including the very smallest companies are limited. In addition, maintaining a large number of companies in the benchmark may involve increased complexity, as well as investment management and transaction costs.

Norges Bank and MSCI have analysed return and risk data for equity indices with fewer companies and lower market coverage than the current Fund equity benchmark. The analysis shows that market coverage may be reduced somewhat without significantly affecting the benchmark's risk and return characteristics.

Generally, the transactions costs of trading in shares of small companies are higher than those of trading in larger companies. There is, however, considerable uncertainty associated with such cost calculations, and the findings depend on which model is applied and which technical assumptions are adopted. Analysis from Norges Bank and MSCI show that the ongoing transaction costs of investing in line with the benchmark will not be significantly affected by a slight reduction in the market coverage. Analysis from MSCI nonetheless show that a reduction in the number of companies may, in combination with other index rule modifications, reduce ongoing transaction costs.

Both Norges Bank and the Council on Ethics comment that the actual portfolio will not necessarily be changed in response to a modification of the benchmark index. Both also observe that there will generally be less information available on small companies than on large companies. The Council on Ethics emphasises that fewer companies will make the portfolio more transparent, since very little information is available on many of the companies held by the Fund.

After an overall assessment, the Ministry proposes to reduce the number of companies in the GPFG equity benchmark by about 25-30 percent. Such a modification will provide a market coverage of 96 percent in the underlying index from FTSE Russell (FTSE Global All Cap), corresponding to about 6,600 companies, against 98 percent and about 8,800 companies at present.

A 96-percent market coverage means that the benchmark is seeking to cover 96 percent of the investable market value included in the index. The total market value of the companies omitted from the benchmark will be small, although the reduction in the number of companies is relatively large. The companies proposed omitted from the benchmark make only marginal contributions to risk diversification because their market value is very low relative to other companies in the benchmark.

The assessments of the number of companies in the equity benchmark are discussed in more detail in chapter 3.2 (in Norwegian only).

Climate risk in the GPFG

Climate change will affect companies and global economic development in coming years. Company earnings may be affected by changes in stakeholder preferences upon the transition to a low-carbon economy, physical changes resulting from climate change, as well as climate policy and technological developments. This gives rise to financial risk, which needs to be managed by investors. Assessments of financial climate risk form an integral part of Norges Bank's risk management, investment decisions and active ownership. However, climate risk differs from other forms of market risk. This makes the management and pricing of such risk challenging for financial market participants. There is increasing focus on this issue in economic theory, and a number of current initiatives are seeking to expand knowledge and information on climate risk and climate-related investment opportunities. A climate risk reporting framework that has gained broad international support is the TCFD working group recommendations. Major regulatory processes have also been initiated.

The Ministry has launched an initiative to expand knowledge on how climate change, climate policy and the Green Shift may affect investors like the GPFG. An expert group has been commissioned to prepare a report on the implications of financial climate risk and climate-related investment opportunities, including discussions on alternative ways of approaching these issues in the investment management. The group shall assess whether new, climate-related knowledge affects key premises underpinning the investment strategy or the operational management of the Fund. The report shall also discuss how climate risk is managed by other, comparable funds. The significance of the GPFG for the Norwegian economy and the Fund capital management framework shall constitute key premises for the group's work.

The Ministry has as part of this initiative also requested Norges Bank to analyse and assess the Fund's climate risk exposure and the investment opportunities the transition to a low-carbon economy may give rise to.

The Ministry is planning to present a comprehensive review of climate risk and climate-related investment opportunities for the GPFG in the white paper on the Government Pension Fund in 2022.

Climate risk in the GPFG is discussed in chapter 3.3 (in Norwegian only).

The GPFG environmental investment mandates

The management mandate for the GPFG has since 2012 required Norges Bank to establish specific environment-related investment mandates. The mandates have a financial objective, and the investments shall, like other Fund investments, contribute to the objective of achieving the highest possible return over time, given an acceptable level of risk. The environmental investment mandates are part of Norges Bank's active management. This implies that the Bank decides the scope and scale of the investments, within the management framework as defined by the Ministry. The environmental investment mandates performance is measured on the basis of financial results achieved over time. There is no requirement for any specific distribution between different asset classes for the investments under the environmental investment mandates. The mandates have historically led to the GPFG being overweighted in environmentally-focused companies and industries, relative to the Fund benchmark.

The investments under the mandates provide exposure to companies and projects that may contribute to various positive climate and environmental effects, including reduced emissions, more efficient energy utilisation, or development of new technology. However, the GPFG is not a climate policy tool. On this, there is a broad political consensus. There is no requirement for the Fund's investments to be tailored to or to further the attainment of any specific climate or environmental objectives. This applies also to the environmental investment mandates. Consequently, there is no requirement for the Bank to report on any specific climate or environmental effects of the mandates.

Requirements and standards for sustainability reporting, including classifications of what may qualify as sustainable or climate and environmental investments, have evolved considerably in recent years. A number of important standards and requirements for sustainability data and sustainable investment classification systems are being developed internationally. A widespread challenge in sustainability reporting, including reporting related to climate and the environment, is however the thus far limited availability of relevant high-quality data that may be applied in a systematic manner. The Ministry expects Norges Bank to monitor these developments and strengthen its own expertise in this regard.

Reporting on the management of the GPFG, including on climate and environmental issues, should be in accordance with leading international standards. In view of the developments in international sustainability reporting requirements, the Ministry will be assessing whether the reporting requirement for the environmental investment mandates may be expanded somewhat. Any expansion will be based on the premise that the GPFG, including the environmental investment mandates, have a clear financial objective. Any new requirements must be structured as to ensuring that the reporting is relevant and provides disclosure on the investments in a suitable manner, based on standards that enable intercompany comparisons.

The environmental investment mandates are discussed in chapter 3.4 (in Norwegian only).

The GPFN's large ownership stakes in the Norwegian equity market

In 2019, the Ministry of Finance was advised by Folketrygdfondet to consider amending the mandate for the GPFN, as the Fund's ownership stakes in the Norwegian equity market have reached levels where there is a risk of breaching the stipulated 15-percent ownership stake limit in Norwegian companies. In the white paper *The Government Pension Fund 2020*, the Ministry proposed this issue should be resolved, in full or in part, through withdrawals from the GPFN.

The Ministry will present a withdrawal model for the GPFN when its review of the matter has been completed. The Ministry will at the same time present its assessments of the regulation of investments in unlisted companies whose board of directors has expressed an intention to seek listing.

Responsible investment

Responsible investment forms an integral part of the management of the GPFN and the GPFG. The mandates stipulated by the Ministry of Finance refer to internationally recognised responsible investment standards and principles. Norges Bank and Folketrygdfondet apply such standards and principles in their responsible investment activities, and are involved in efforts to further develop such standards.

Norges Bank and Folketrygdfondet make investment decisions and exercise ownership rights independently of the Ministry. Important responsible investment measures include

advocacy of principles and expectations based on internationally recognised standards, company dialogue on relevant topics and issues, as well as voting in annual general meetings of investee companies. Risk management is also an important aspect of responsible investment.

Norges Bank has, as part of its responsible investment efforts, prepared expectations documents on several issues, including climate, human rights, child labour, and tax and transparency. The expectations documents are directed at the board of directors of the investee companies, and are used as a basis for the Bank's ownership dialogue. Folketrygdfondet has prepared guidance notes for companies on, inter alia, capital structure and financial objectives, anti-corruption, remuneration, human rights and climate.

The Ministry of Finance has adopted Guidelines for Observation and Exclusion of companies the GPFG on ethical grounds shall not be invested in. Some guideline criteria entail exclusion of companies on the basis of their products, such as tobacco, coal or certain types of weapons. Other criteria are based on the conduct of companies, including serious human rights violations and severe environmental damage.

An independent Council on Ethics appointed by the Ministry of Finance submits recommendations on the exclusion and observation of companies from the GPFG under the ethically motivated guidelines. Decision-making authority rests with the Executive Board of Norges Bank. For the coal criterion, the Bank may make decisions without any recommendation from the Council on Ethics. Before exclusion is decided, the Bank shall consider whether other measures than that recommended by the Council on Ethics may be suited for reducing the risk of continued violation of norms, or may be more appropriate for other reasons. The Bank shall consider the various tools at its disposal in relation to each other and use these in an integrated manner. Active ownership may be effective in reducing the risk of violating ethical norms by influencing companies to change their conduct. The overarching objective is to apply the most appropriate tool in each individual case.

The UN sustainable development goals (SDGs) define key challenges for sustainable development. The goals have been set by and for states and governments, and specify political measures for eradicating extreme poverty, ensuring inclusive, sustainable development and promoting welfare, peace and justice. Responsible business conduct is a prerequisite for attainment of the sustainable development goals. The GPFG has a clear financial objective, and is not a tool for attaining the SDGs. The GPFG responsible investment practices nonetheless

support and advocate the SDGs by promoting sustainability and responsible business conduct. Norges Bank expresses clear expectations that investee companies are committed to responsibility and sustainability, and it contributes to the continued development of relevant standards and principles. Global attainment of the SDGs will affect companies' operations and earnings, and thereby also influence the financial risk and investment opportunities facing investors such as the GPFG. As a responsible long-term investor, the GPFG contributes capital that supports the investee companies. Furthermore, the Fund contributes to sustainable long-term growth, with due consideration for environmental, social and corporate governance issues, through dialogue with the companies.

The investments of the Fund attract considerable attention. A strong framework for risk management, responsible investment and ethically motivated guidelines cannot serve as an ironclad guarantee against blameworthy situations in Fund portfolio companies. It is not feasible to organise investment management with a view to prevent the Fund from ever being exposed to any unwanted situations at any given time. It is nonetheless important for risk management and the responsible investment framework to be refined and developed on an ongoing basis.

Responsible investment is discussed in further detail in chapter 6 and chapter 7 (in Norwegian only).

GPFG tax and transparency initiatives

Norway takes an active role in international efforts to increase transparency, exchange information and achieve an appropriate allocation of taxation rights globally. Closed tax jurisdictions, international tax avoidance and appropriate allocation of taxation rights globally should be addressed and resolved through international cooperation and consensus-based solutions. Enforcement of existing tax rules, as well as the development of tax regulations in domestic law and through international standards, are government responsibilities.

As a long-term investor, Norges Bank's management of the GPFG emphasises real, long-term company earnings, and not potential short-term gains resulting from aggressive tax planning. It is therefore in the Fund's interest that companies have sustainable tax practices.

At the publication of last year's white paper, it was announced that the Ministry would

address tax and transparency initiatives in the management of the GPFG in the white paper due in the spring of 2021. Norges Bank has in a letter to the Ministry provided an account of the Bank's expectations document on tax and transparency, its dialogue with companies, its approach to tax risk, and future plans in this regard.

The expectations document is based on internationally recognised principles, including, inter alia, the OECD Guidelines for Multinational Enterprises and the G20/OECD Principles of Corporate Governance. In the document, the Bank expresses an expectation that companies pursue appropriate, prudent and transparent tax practices that are endorsed by the company board of directors. The Bank comments that aggressive tax planning may give rise to financial risk, because companies that engage in aggressive tax planning may be more vulnerable to changes in taxation regulation, or subject to elevated risk of tax disputes, fines or reputational loss.

The expectations document is directed at the board of directors of investee companies, and serves as a starting point for Norges Bank's ownership dialogue. The purpose of the dialogue on tax issues is to contribute to responsible and sustainable tax practices. The dialogue is based on the topics addressed in the expectations document, but the Bank will also discuss specific challenges facing companies, for example tax disputes or tax reporting issues. The knowledge acquired by Norges Bank through the company dialogues constitutes a basis for further assessment of companies' tax risk. In 2020, the Bank completed the first risk-based divestments due to unacceptable tax risk.

In the Ministry's view, it is positive and important that Norges Bank is highlighting tax and transparency initiatives in its reporting. The Ministry assumes that the Bank on an ongoing basis will assess how the expectations document may be evolved and how the Bank can further strengthen its tax and transparency initiatives within its role as a long-term financial investor.

Tax and transparency initiatives are discussed in chapter 6.3 (in Norwegian only).

Recommendations of the Ethics Committee

The Ministry of Finance introduced ethically motivated guidelines for the GPFG (then called the Government Petroleum Fund) in 2004. The guidelines were based on proposals in the NOU 2003:22 green paper; *Management for the Future*. The Fund value has increased considerably since then, and its investments have been expanded to

more countries and companies. Norms and technologies have evolved, and new ethical issues have come into focus.

In view of these developments, the Government in 2019 appointed a public committee to assess and propose changes to the ethical framework for the Fund. The Committee submitted its report, the NOU 2020:7 green paper; *Values and Responsibility*, in June 2020. The Committee recognised that the ethical framework for the GPFG has worked well, but proposed certain amendments to the Guidelines for Observation and Exclusion of companies, as well as some modifications to Norges Bank's management mandate.

The Ministry received about 50 consultative comments, primarily from civil society organisations. Most of the comments conclude that the Committee's proposals will strengthen the ethical framework for the Fund. However, some modifications are proposed to the Committee's recommendations. The Storting's Standing Committee on Finance and Economic Affairs also made some comments on parts of the Committee's report and the ethical framework in Innst. 136 S (2020–2021).

The Ministry is in this white paper proposing that the Committee's proposals be implemented in all key respects, subject to some modifications. A new conduct criterion regarding sale of weapons will be introduced, and the application of the nuclear weapon criterion is to be adjusted to encompass certain types of delivery platforms used only for nuclear weapons. The potential introduction of a criterion for lethal autonomous weapons will be further deliberated, in the context of, inter alia, the international talks on this matter where Norway takes part. Furthermore, the corruption criterion will be expanded to also include other types of serious financial crime, and it is emphasised that this includes, inter alia, money laundering and tax evasion, as well as the facilitation of such activities. The Committee discussed whether to introduce a separate product criterion for cannabis, but did not propose this. Based on an overall assessment, the Ministry proposes the introduction of product criterion for cannabis as a recreational drug.

The Ministry takes note of the Committee's discussion of company pre-screening, and is in accordance with its assessment not proposing to introduce such pre-screening of investments. The Committee has considered the use of various indices to screen the Fund's investment opportunities. The Committee is of the view that such indices must be used with caution and are not suited for rule-based constraint in the investment universe. The Ministry would however expect Norges Bank as part of the process of approving markets in which the Fund is to be invested, to take into account, inter alia, that the Bank is required to engage in responsible investment. Norges Bank should in that regard

take note of where special caution is needed, where ESG information may be particularly useful. The Ministry will in accordance with the Committee's proposal include the UN Guiding Principles on Business and Human Rights (UNGP) in the Bank's mandate.

The Ethics Committee recommendations for the GPFG and the Ministry's conclusion are discussed in chapter 7.

Appointment of Chief Executive Officer of Norges Bank Investment Management

In 2020, the Executive Board of Norges Bank made the first appointment of the Chief Executive Officer of Norges Bank Investment Management (NBIM) since the new Central Bank Act entered into effect 1 January 2020. The appointment process raised several challenging issues.

The Ministry of Finance has initiated an assessment on, inter alia, whether the framework for involvement of the Ministry in the appointment process is appropriate. When drafting the Central Bank Act, the Ministry of Finance intended to place sole responsibility for appointment of the Chief Executive Officer of NBIM with the Executive Board with no instruction right for the Ministry on the matter. The Ministry role was to be limited to providing input on the qualifications required for the position, as well as being informed of candidates under consideration. The Ministry of Finance and Norges Bank shared this legal understanding of the Central Bank Law. This legal understanding resulted in the Ministry neither receiving, nor having any basis for requesting, information of relevance to assess whether the Ministry should instruct the Bank on the matter or follow up with questions on the handling of conflicts of interest, etc. The process showed that the intended exclusion of the Ministry's right to instruct Norges Bank had not been made sufficiently explicit in the Central Bank Act (section 2-13) and its preparatory works.

The assessment is also a part of the Ministry's follow-up on the expectation the Standing Committee on Finance and Economic Affairs expressed in Innst. 398 S (2019–2020). The Standing Committee requested that a section (1-6) in the Central Bank Act should be clarified in order to align Norges Bank's understanding of its disclosure obligations with the disclosure expectations of the Government and the Storting. The Standing Committee «expects the Government to follow this up in a suitable manner and revert to the Storting with an assessment of these issues, including an assessment as to whether the wording in the section should be further clarified.»

The Ministry will revert to the Storting when its assessment into these matters is completed, including possible suggestions on legislative amendments.