CORPORATE GOVERNANCE IN THE NORDIC COUNTRIES

Danish Corporate Governance Committee
Finnish Securities Market Association
Icelandic Committee on Corporate Governance
Norwegian Corporate Governance Board
Swedish Corporate Governance Board

PREFACE

This presentation has been prepared with the co-operation of the self-regulatory corporate governance bodies of the five Nordic countries Denmark, Finland, Iceland, Norway and Sweden. Its aim is to inform international investors, proxy advisors and other market participants as well as policymakers of key elements of Nordic corporate governance, and thereby to increase knowledge of and confidence in the Nordic corporate governance models. It may also serve as a basis for any future discussions about the possibilities of further alignment of corporate governance regulation and practices between the Nordic countries.

This document was initially published in 2009 by the organizations responsible for maintaining the local corporate governance codes in the Nordic countries and it has been updated in 2022 by representatives of the undersigned bodies.

Comments and suggestions for future editions are welcome and may be addressed to any of the undersigned bodies.

Danish Corporate Governance Committee: **www.corporategovernance.dk**
Finnish Securities Market Association: **www.cgfinland.fi**
Icelandic Committee on Corporate Governance: **www.corporategovernance.is**
Norwegian Corporate Governance Board: **www.nues.no**
Swedish Corporate Governance Board: **www.corporategovernanceboard.se**

INTRODUCTION

The corporate governance model of the Nordic countries meets with the highest international standards. At the same time, owing to company legislation, corporate governance traditions and some specific preconditions regarding the ownership structure on the stock market, Nordic corporate governance differs in some respects from the Anglo-Saxon and European Continental models. The aim of this presentation is to highlight the most important and distinctive features characterizing the Nordic corporate governance model.

The Nordic countries are advanced market economies with well-developed and international capital markets. With regard to their size, the Nordic countries host a remarkable number of world-leading companies, which in many cases have attracted even larger foreign ownership. Still, the majority of stock-listed companies are relatively small in an international perspective with predominantly domestic ownership.

During the last decades, the Nordic capital markets have become increasingly integrated and the Nordic stock exchanges are today, except the Oslo Stock Exchange, wholly owned by Nasdaq Nordic. As an outcome of this, listing rules and requirements have been increasingly harmonized, which has further enhanced the competitiveness of the combined Nordic capital market.

The corporate governance model of the Nordic countries is based on national legislation, primarily each country's companies act, but also the respective accounting acts and acts governing the securities market and securities trading, as well as relevant EU regulation, stock exchange rules and corporate governance codes. The Nordic companies acts share a heritage of strong harmonization efforts from the mid-20th century. This development came to an end in the beginning of the 1970's when Denmark entered the EC, followed by Finland and Sweden in 1995. Iceland and Norway are members of the EEA and thereby also implement all EC legislation, relevant to the EEA agreement. Still it resulted in far-reaching similarities between the new companies acts, introduced in all Nordic countries later in that decade. Even though the companies acts of the Nordic countries have from that point in time developed along different paths and today show significant differences in details, they still resemble each other in fundamental corporate governance aspects.

Furthermore, the Nordic companies acts are all highly up-to-date and include several aspects of modern corporate governance that, in other countries, are regulated through codes on a comply or explain basis. Other such aspects are covered by stock exchange rules, which listed companies are contractually obliged to comply with. Hence, significant parts of modern corporate governance are, in the Nordic countries, regulated through binding regulations.

Self-regulation is well established in the Nordic countries and plays an essential regulatory role in corporate governance as well as in other areas. Hence, the Nordic corporate governance codes, introduced in the early 2000s, were developed within the self-regulatory framework of each respective country, and they have since then been administered by independent corporate governance committees. Although the codes, too, differ in detail between the countries, they are all based on the general international development and common Nordic approach within this field and thus show a fundamental resemblance to one another.

In the Nordic countries a listed company is seen as an integral part of the society in which it operates. Therefore, in order to secure the long-term sustainability and profitability of its business, it is understood that the company must adhere to the norms and values prevailing in the society from time to time, taking into account a wide range of legitimate interests.

Issues related to sustainability and corporate social responsibility are incorporated in law and/or the codes in Nordic countries. This is done through enhancing transparency on different company matters and promoting strong shareholder powers through shareholders participating and exercising their voting rights at the General Meeting. Companies enhance their transparency through various reporting schemes such as ESG reports. This benefits the companies' long term value creation and enables shareholders and other stakeholders to gain more information of the companies.

The following is a summary description of some key features of Nordic corporate governance based on relevant legislation, stock-market rules, self-regulation codes and, where relevant, generally accepted market practice. The description does not claim to be exhaustive, nor to reflect the exact situation in each country, but gives an overview at a relatively high level of aggregation of some common aspects of corporate governance in listed companies in the Nordic countries.

1 STRONG GENERAL MEETING POWERS

The Nordic companies acts provide for strong shareholder powers through the General Meeting as the highest decision-making body of the company. At the General Meeting the shareholders participate in the supervision and control of the company.

An Annual General Meeting (AGM) must be held within a certain time period after the end of the financial year. The AGM approves the company's annual accounts, including any distribution of profits. The AGM decides on election and dismissal of individual directors of the Board. The remuneration to the directors of the Board is to be approved by the AGM, which also appoints the company's statutory auditors. The AGM also votes either in binding or advisory manner on the remuneration policy and remuneration report.

A decision by the General Meeting is also required regarding, i.a. mergers and demergers of the company, amendments of the company's Articles of Association and alterations of the company's share capital. Some decisions may also be taken by the Board if authorised by the General Meeting, for example, issues of new shares, convertibles or warrants and buy-back of own shares.

2 SHARES WITH MULTIPLE VOTING RIGHTS

Shares with multiple voting rights are permitted, within clearly defined limits set in the companies acts. This is the most frequently used ownership control enhancing mechanism (CEM) primarily in Sweden but to some degree also in Denmark, Finland and Iceland. Multiple voting rights are not common in companies listed at the Oslo Stock Exchange, and the Norwegian Corporate Governance Code recommends against limitations on voting rights. Other forms of CEMs are not commonly used in Nordic listed companies, except for ceilings on voting rights or ownership in Denmark.

The freedom of contract is balanced by strict disclosure requirements and minority rights. The use of shares with multiple voting rights and other CEMs must be fully disclosed to the shareholders and the market.

3 EFFECTIVE MINORITY PROTECTION

To balance the power of major shareholders, the Nordic companies acts allow for substantial protection of minority shareholders. Nordic companies are under a strict obligation to treat all shareholders equally. Consequently, the minority protection rule prescribes that the General Meeting - or the Board or any other governance body - may not make a decision that might give an undue advantage to some shareholders or other persons at the expense of the company or other shareholders. All shares provide equal rights, unless the Articles of Association allows shares with different rights.

Furthermore, there are a number of rules limiting the majority decision principle on specific matters at the General Meeting. Hence, although the general rule is that the General Meeting decides with a simple majority, a number of decisions require various degrees of qualified majority of both shares and votes to be valid. Examples of such decisions are amendments of the Articles of Association, share capital alterations and mergers or demergers. There are also rules granting a certain minority, rights to force certain decisions, such as to summon a General Meeting and in some countries to distribute a minimum dividend out of the company's profit.

As part of the minority shareholder protection, shareholders rights directive, local legislation and codes include numerous mandatory provisions concerning related party transactions of listed companies. These provisions set particular requirements for the monitoring, assessment, and decision-making concerning related party transactions as well as for the disclosure of implemented related party transactions and the contents of such disclosure.

4 EFFECTIVE INDIVIDUAL SHAREHOLDER RIGHTS

Additional minority shareholder protection is obtained by the relatively far-reaching rights of the individual shareholder. Hence, most of the provisions of the EU Shareholders' Rights Directive (2007/36/EC) with amendments (2017/828/EU) have for a long time been part of the Nordic companies acts.

Each shareholder, irrespective of the number or class of shares held, has the right to participate in the General Meeting and to vote on his or her shares. Shareholders who are not able to attend in person may exercise their rights by proxy. Each shareholder has the right to table resolutions and to ask questions on topics within the scope of the agenda of the General Meeting.

Each shareholder also has the right to have issues falling within the competence of the General Meeting, included in the meeting agenda, providing a request has been submitted to the Board in adequate time for the issue to be included in the notice calling the meeting. The General Meeting may not make any resolutions on items unless they have been included in the agenda for the meeting.

Generally, companies are encouraged to facilitate shareholder attendance and voting at General Meetings, and no shares may be blocked. There are also strict limits on how early cut-off dates for the right to vote at General Meetings may be set.

5 NON-EXECUTIVE BOARDS AND DIVERSITY

The Nordic corporate governance structure lies between the Anglo-Saxon one-tier and the continental European two-tier model. The Board is responsible for the overall governance of the company's affairs, including the strategy, organisation, financial structure of the company and oversight of risk management and internal controls, whereas the day-to-day management is delegated to the CEO. The extensive decision-making authority thus assigned to the Board is limited primarily by the decision-making powers of the General Meeting in certain matters.

The codes or the listing rules of all Nordic countries stipulate that at least half, or a majority, of the Board members to be elected by the shareholders have to be independent of the company.[1] Further, a separation between the Board and Executive Management is required. The same person cannot be CEO and chairman of the Board. Hence, the great majority of the Nordic listed companies have entirely or predominantly non-executive boards.

The Nordic corporate governance model has promoted stronger diversity in the Boards throughout the years. In the Nordic countries, both men and women are generally well represented in the boards.

[1] In Denmark, Norway and Sweden the employees have the right to appoint a limited number of Board members.

6 USE OF BOARD COMMITTEES

With entirely or predominantly non-executive directors on Nordic companies' Boards, the establishment of Board committees becomes more a question of efficient organisation of the Board's work rather than of the integrity of the Board vis-à-vis the company management.

Therefore, in general, the Nordic corporate governance codes recommend that Boards consider the establishment of subcommittees for handling matters of this nature, but leave it to each Board to decide whether this is warranted or not in each particular case.

After changes to EU law, most Nordic companies have audit committees with the overarching duties to serve as the board's expert group on matters of financial reporting, risk management, internal control and external and internal audit. It is also common that companies have nomination and remuneration committees.

It should furthermore be noted that, as a consequence of the Nordic countries' companies acts, a Nordic Board subcommittee can only be assigned tasks within the framework of the entire Board's duties, and that the full responsibility for any matter delegated to a Board subcommittee stays with the Board as a whole.

7 NOMINATION OF BOARD MEMBERS

Proposals to the AGM concerning the election of Board members are often prepared by nomination committees. Nomination committees are, in Norway and Sweden, and also to an increasing extent in Finland, mainly composed of representatives of the largest shareholders (instead of being composed of Board members) where the AGM either select the nomination committee members or decide the selection criteria. However, in Denmark, nomination committees are composed by members of the Board.

8 AUDITORS APPOINTED BY AND ACCOUNTABLE TO THE SHAREHOLDERS

The statutory auditors of a Nordic company are appointed by the General Meeting to audit the company's annual accounts. In Finland and Sweden, they also have the duty to review the Board's and the CEO's management of the company. Auditors of Nordic companies are therefore given their assignment by, and are obliged to report to, the shareholders, and they must not allow their work to be governed or influenced by the Board or the executive management[2].

Auditors present their reports to the shareholders at the AGM in their annual audit report. In most of the countries part of their assignment is to recommend whether the General Meeting should adopt the financial statements and whether the company's profit or loss should be appropriated in accordance with the Board's proposal.

In most of the countries, the auditors are furthermore obliged to report if any member of the Board or the CEO has carried out any action or committed any oversight that may result in liability for damages or has contravened the relevant companies act, the relevant legislation on annual accounts, or the company's Articles of Association.

[2] According to the EU Audit Regulation (537/2014/EU) there are strict rules on auditors of listed companies to offer other than audit services to their audit clients.

9 ACTIVE GOVERNANCE ROLE OF MAJOR SHAREHOLDERS

Many large companies in the Nordic area have a dispersed ownership structure with a clear separation between the ownership and management roles. However, a relatively large portion of the listed companies in the Nordic area have one or a few major shareholders, who often play an active role in the governance of the company. This has important repercussions for the view of the ownership role, and major private shareholders in such companies are generally expected to exert their ownership rights actively and take long-term responsibility for the company.

In line with this, major private shareholders normally not only take part in General Meeting proceedings but also often involve themselves in the company affairs by serving on the Board. Still, in all countries there should be at least two Board members independent from major shareholders (in Denmark at least half).

Hence, there is a generally positive view of ownership involvement in the company affairs in the Nordic region. At the same time, there are strong legal provisions against misuse of such powers to the detriment of the company or the other shareholders.

Moreover, all members of administrative, management and supervisory bodies have strict duty to work in the best interest of the company and all shareholders.

10 TRANSPARENCY

Nordic listed companies have in general been early to adopt high standards of transparency towards their shareholders, the capital market and the surrounding society as a key aspect of modern corporate governance. Nordic companies are often well represented in international sustainability reporting rankings.

In particular regarding remuneration to the Board and management, a high degree of transparency has, for many years, been standard procedure in Nordic corporate governance. Thus, full disclosure at the individual level of the remuneration to the directors of the Board and the CEO is required. In addition, with some variations between the countries, the company's remuneration policy has to be disclosed and presented at the AGM, and submitted for approval in Denmark, Iceland, Norway and Sweden and for advisory vote in Finland. Further, in Finland the principles for remuneration to the executive management have to be published on the company's website going beyond what is required by EU directive.

11 RISK MANAGEMENT AND INTERNAL CONTROL

A key responsibility of the Board of a listed Nordic company is to ensure that the company has a well-organized and efficient risk management and internal control system.

Although closely related to risk management, the internal control system also comprises specific processes, procedures and measures aimed inter alia at:

- facilitating targeted and effective operational arrangements for the company,
- securing an adequate quality of the company's internal and external reporting, and
- ensuring that the company complies with applicable legislation and other relevant regulation as well as with internal policies and guidelines regarding e.g. corporate values and corporate culture, business ethics and the company's conduct towards the surrounding society.

Larger listed companies normally have a formal internal audit function. In smaller companies, where this may be considered an excessive administrative burden, the Board should ensure that the corresponding duties and responsibilities are adequately taken care of within the ordinary organization.

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The working group of the self-regulatory corporate governance bodies of the five Nordic countries

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