Norges Bank
Investment
Management

Securities and Exchange Commission
100 F Street, N.E. Washington, D.C. 20549-1090
UNITED STATES

Via online submission

Date: 25.07.2025

Re: File Number 4-855 - Executive Compensation Disclosure Requirements

We refer to the Securities and Exchange Commission (SEC)'s request for comment on public company executive compensation disclosure requirements. We welcome the SEC's initiative to refine disclosure in ways that provide clear and material information for investors while reducing preparation complexity for issuers. We were pleased to participate in the SEC's roundtable on this topic on June 26, 2025, and we appreciate the opportunity to provide input for this important review.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank that manages the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As of year-end 2024, we managed 1.74 trillion USD in assets, with the United States representing our largest market at 53.4% of total investments. Within our equity portfolio, 719 billion USD was invested in shares of 1,758 U.S. public companies. We are a minority shareholder in U.S. public companies, with an average equity ownership of 0.94 percent.

As a financial investor, our focus as it relates to executive compensation is that pay must be value-creating for the company and align executives' interests with those of the company's shareholders. How a company's management team is incentivized and rewarded has significant influence over their decision-making and financial performance over time. This is particularly important in the case of the chief executive officer (CEO).

As outlined in our position paper on CEO compensation[1], we favor simple pay structures, with CEOs building and holding shares for the long term. In this regard, we appreciate an emphasis on equity-based pay and CEO stock ownership, which we observe across many of our U.S. portfolio companies. We consider straightforward equity grants that are locked in for 5-10 years, regardless of resignation or retirement, to directly align CEO interests with those of the company's long-term shareholders, while avoiding complexity in compensation design and disclosure. We also believe this reduces the

[1] Norges Bank Investment Management (2017): Position paper on CEO Remuneration

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risk of unintended consequences of basing a significant portion of pay on achieving various multi-year performance metrics, given the inherent difficulty of choosing metrics that provide appropriate incentives in shifting circumstances.

In analyzing compensation practices across our portfolio, we have observed that performance share units (PSUs) have become increasingly prevalent in U.S. CEO pay structures. Our analysis of our U.S.-listed portfolio companies shows that PSUs comprised almost 90% of the growth in pay from 2017 to 2023[2], measured using grant date fair values assuming target performance levels. We are not aware of any academic evidence supporting the use of PSUs in pay structures, and the available research seems to indicate the opposite: Marc Hodak found that S&P 500 firms using PSUs paid more and underperformed sector peers who do not use PSUs over rolling three-year periods[3]. Our own analysis of portfolio holdings from 2017-2023 yields similar results. Additionally, our analysis indicates that PSUs typically vest above target levels more often than below, suggesting that the actual cost of PSUs is higher than indicated by target grant values.

While we observe that companies generally provide some detail about performance criteria for the year of grant, we find that there is limited disclosure about how these criteria were evaluated by the board of directors at the end of the performance period, and how that evaluation drove vesting results. This asymmetry may lead investors to overemphasize the theoretical ex ante variability from performance metrics and underemphasize the less disclosed ex post vesting considerations. We believe this difference in disclosure emphasis may inadvertently have contributed to steering some investors, and their advisors, to favor multi-year performance conditions for equity grants, despite the lack of evidence that such conditions drive better performance, as discussed above. This perceived investor preference for PSUs appears to have developed into a market expectation, potentially limiting companies' flexibility to choose compensation plan designs with simple equity structures. The disclosure framework's emphasis on ex ante design over ex post results may therefore be one factor explaining the significant trend towards incentivizing CEOs via PSUs rather than simpler time-based equity.

Given these observations and our perspectives as an investor, we respectfully offer two recommendations that we believe would help enhance disclosure effectiveness:

1. Simpler disclosure when pay structure is straightforward: Companies choosing simple and transparent compensation structures (such as salary plus time-based equity) could utilize simplified disclosure formats. While recognizing that companies with simpler programs already omit certain inapplicable tables and columns, we believe further streamlining opportunities exist, for example in reducing CD&A length and eliminating performance-related disclosures that have little relevance to time-based awards. Such an approach could further reduce disclosure length and complexity for companies with straightforward compensation plans, while maintaining or improving clarity for investors. Conversely, when companies employ more complex performance awards, investors need sufficient transparency throughout the award lifecycle to understand how these programs function.

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[2] Norges Bank Investment Management: "Time to rethink performance shares?" Harvard Law School Forum on Corporate Governance, August 28, 2024.
[3] Hodak, Marc (2019) "Are Performance Shares Shareholder Friendly?" Journal of Applied Corporate Finance 31, 126-130

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2. Improved lifecycle transparency for equity awards: For equity-based compensation, we suggest considering disclosure formats that provide clearer visibility from grant through vesting. We find that current requirements emphasize detailed information at the time of grant but provide limited standardized disclosure about vesting outcomes and how performance criteria were actually evaluated, making it difficult to assess the total incentive that the CEO received in any given period and how such incentives compared to the original targeted value and metrics. A simple format tracking each award through its lifecycle, such as a table or chart, could provide investors with useful information about how compensation programs function in practice. This could include how boards assess performance against each criterion, reconciliation of any non-GAAP metrics to GAAP in table format rather than narrative text, consideration of adjusted measures, and settlement in shares vs cash. This information already exists in company records, making it a shift in disclosure focus and presentation rather than an additional reporting burden, and could potentially replace some of the extensive disclosure currently required.

We thank the Commission for considering our perspectives and remain available for further discussion.

Yours sincerely,

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