

Recommendations on
FOUNDATION GOVERNANCE

2025

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Preface

A. Introduction

The commercial foundations are of great importance to Danish society. Through their ownership of the companies they control and the other investments and asset management they undertake, the foundations impact the Danish business community and the development of both large and small Danish companies.

The foundations help to maintain production and thus jobs as well as export and tax revenues in Denmark. Through their distribution purpose, the foundations also contribute to the development of society in a large number of areas, including research, culture, education, the environment, social work, etc. The commercial foundations are thus of great socio-economic importance to Danish society.

A commercial foundation has one or more purposes, which are usually laid down by the founder in the foundation's articles of association. The board of directors is responsible for ensuring that the management of the foundation solely safeguards the purpose and interests of the foundation, and that the foundation is administered in accordance therewith.

The fundamental difference between commercial foundations and other enterprises is that commercial foundations do not have owners. Commercial foundations do not hold general meetings where the owners decide who should sit on the board of directors and which control that the board of directors is performing its duties adequately and in accordance with the wishes of the owners.

The overall purpose of the Recommendations on Foundation Governance is to support that the management of commercial foundations solely safeguards the purpose and interests of the foundation and administers the foundation in accordance with best practice.

It is essential for the foundation's work and legitimacy that the general public has confidence in that the foundations are run with professionalism and respect for the society. Recommendations on Foundation Governance shall contribute to this, inter alia through recommendations on transparency and openness about the work of the board of directors.

The Recommendations on Foundation Governance are aimed at all commercial foundations, regardless of size. Their boards of directors are expected to implement sound and beneficial principles and tools to improve foundation governance.

It is the duty of the board of directors to safeguard the interests of the foundation. Safeguarding the interests of the foundation involves a duty for the board of directors to ensure that the activity and distribution objectives are promoted in the best possible way, and that an executive board (if any) and other employees work solely in the interests of the foundation. It is also the

duty of the board of directors to safeguard the interests of the foundation in relation to any subsidiaries, inter alia by exercising shareholder engagement¹.

Shareholder engagement means that a foundation which controls one or more subsidiaries contributes to the management of the companies by appointing members of the board of directors in these companies, by voting at their general meetings and by acting as the stable foundation for their long-term development. The board of directors must continuously monitor the development of the subsidiaries.

Management of commercial foundations should be competent and professional, in accordance with the intentions of the founder, as expressed in the articles of association, and current legislation. Only this will secure confidence in commercial foundations from relevant stakeholders.

The recommendations are a supplement to the legislation on commercial foundations, including the Commercial Foundations Act² and the Financial Statements Act³, which set the frameworks for the needs of the outside world for transparency with regard to the governance of commercial foundations and, inter alia, financial reporting, statutory statements and information on distributions and activities. The recommendations are intended to demonstrate best practice for the work of the board of directors in commercial foundations and to contribute to transparency about the affairs of foundations.

The recommendations are not an exhaustive list for good governance of commercial foundations. The challenges for and circumstances of the foundations and their boards of directors are too varied.

Recommendations are the best type of regulation of good governance of commercial foundations. However, this requires that the society, the foundations, and the foundations' various stakeholders are positive about the recommendations, have a positive attitude towards improving the governance of commercial foundations, follow developments in the area and engage in the debate on these matters.

B. Soft law and its implications

The recommendations are “soft law” and are thus more flexible than legislation (“hard law”). Whereas regulation by law typically provides a minimum standard, soft law reflects a higher standard than legislation and aims to reflect best practice. In addition, soft law is characterised by a high degree of voluntarism, which grants the flexibility necessary for commercial foundations to adjust the principles on good governance of commercial foundations to the circumstances of the individual foundation.

The flexibility of the recommendations is essential since good foundation governance does not necessarily mean one right solution for all commercial foundations.

¹ In the Danish version the term “engageret ejerskab” is used

² In Danish Lov om erhvervsdrivende fonde, LBK nr. 984 af 20. september 2019

³ In Danish Årsregnskabsloven LBK nr. 1057 af 23. september 2024 with later amendments

Soft law is easier to adapt and more dynamic than legislation, and this makes it possible to keep the recommendations continuously up-to-date and relevant.

C. Report on Foundation Governance

The board of directors of a commercial foundation must prepare a report on foundation governance in pursuance of section 60 of the Commercial Foundations Act, in which the board of directors addresses each recommendation in the Recommendations on Foundation Governance.

The report on foundation governance must be prepared using the comply or explain principle, with respect to each recommendation.

The comply or explain principle is a key element in the recommendations. Any explanations should relate to the individual recommendation and should enable the reader to understand the type of management of the foundation.

The principle means that it is the board of directors of the individual commercial foundation that decides to what extent the board of directors wants the foundation to comply with the recommendations.

If the foundation complies one or more of the recommendations, it is sufficient for the board of directors in relation to each of the recommendations to state that the foundation complies. The board of directors may choose to provide supplementary information for the recommendation(s) that the foundation complies.

If the foundation does not comply one or more recommendations, the board of directors must explain for each of these recommendations:

- *why* the board of directors has chosen to act differently, and
- *how* the board of directors has chosen to do instead.

It is not considered a breach of rules if the foundation does not comply, but merely implies that the board of directors has specifically and for reasons it has explained chosen a different approach.

The foundation will thus comply with the recommendations by either complying or explaining in the above manner.

According to section 77a of the Financial Statements Act, the report must be included:

- in the management commentary or notes in the annual report, or
- on the foundation's website, with a precise reference to the website in the management commentary or in the notes.

In its role as foundation authority, cf. section 60(2) of the Commercial Foundations Act, the Danish Business Authority may order the board of directors to account for how it applies the recommendations, if the board of directors:

- fails to address one or more recommendations,
- fails to explain a deviation,
- provides an explanation for a deviation that is apparently unjustified or without meaning, or
- explains a deviation but does not explain how the board of directors has chosen to do instead.

In its report, cf. section 60 of the Commercial Foundations Act, the board of directors must only address the recommendations. The introduction to the recommendations and the comments will serve to elaborate on the recommendations and should be included in the board of director's work with the recommendations.

The information in the report of the board of directors should be presented in a clear and easy to read way. If a commercial foundation does not comply with an individual recommendation, the explanation for the non-compliance must be clear and comprehensive thus enabling the reader to understand the choice of the board of directors and the reasons therefore.

The report must cover the same period as the accounting period of the annual report and shall be published concurrently with the annual report.

The Committee on Foundation Governance has drawn up a form which commercial foundations can use for preparing their report. The form can be found at www.godfondsledelse.dk. It is recommended that foundations download a new form every year to ensure that the latest updated form is used. By using the same structure from year to year, the foundation's stakeholders can more easily find, process and compare the information.

The Recommendations on Foundation Governance only apply to the commercial foundations, but non-commercial foundations, other self-governing institutions, foundation-like associations, etc. can also draw inspiration from these recommendations.

D. Aids and frequently asked questions (FAQ)

The committee has produced documents, overviews, guides and templates to help boards with implementing foundation governance.

In addition to the form that the committee has prepared for the report on foundation governance, the committee has also prepared draft rules of procedure and a template for an annual wheel that commercial foundations can use. Everything can be found at www.godfondsledelse.dk, where there are also answers to when and how the board of directors should relate to the recommendations, as well as answers to frequently asked questions about the specific recommendations.

These recommendations are effective for financial years beginning on or after 1 January 2025, replacing the committee's recommendations from June 2020.

For financial years beginning before 1 January 2025, board of directors must address and report on the recommendations from June 2020.

For financial years beginning on or after 1 January 2025, boards must address and report on these recommendations.

The committee draws attention to the fact that a new form has been prepared for the boards of directors' report on foundation governance in relation to these Recommendations on Foundation Governance, which applies to financial years beginning on or after 1 January 2025.

Copenhagen, 20 December 2024

The Committee on Foundation Governance

Recommendations on Foundation Governance

1. Transparency and communication

The board of directors of a commercial foundation should continuously work to create transparency for the benefit of the foundation, other stakeholders (grant recipients, subsidiaries, associated companies, employees, trading partners, public actors, etc.) and the society. Their insight into and relation to the foundation depends on the quality, scope and frequency of the information published by the foundation.

Especially because foundations are self-governing, it is essential that there is openness and transparency about the foundation's affairs and the work of the board of directors. This is essential not only to enable the foundation's stakeholders and the society to assess and relate to the foundation, but also to strengthen trust in the foundation. It is crucial that foundations, both individually and collectively, have legitimacy and enjoy trust in the society in which they operate.

Principles on communication help the foundation to provide relevant, reliable and precise information of high quality in a timely manner.

Essential information, including the board of directors' statutory report in relation to the Recommendations on Foundation Governance, must be included in the management commentary or notes in the annual report or on the foundation's website, with a specific reference to the management commentary or notes.

1.1 It is **recommended** that the board of directors adopt principles for external communication that address the need for transparency and stakeholders' needs and possibilities to obtain relevant up-to-date information about the circumstances of the foundation.



Comment: The rules of procedure of the board of directors could contain an overall description of the principles for external communication. The principles should establish who speaks to the public on behalf of the commercial foundation and on which matters.

It may be relevant to publish the overall positions, procedures and values upon which the foundation's communication is based.

Publication of the foundation's contact person(s) in the foundation's annual report and/or on the foundation's website supports that it is simple and transparent for the public to get in touch with the foundation.

2. Tasks and responsibilities of the board of directors

The board of directors is responsible for the overall and strategic management of the foundation and shall solely safeguard the interests of the foundation in accordance with the purpose of the foundation. In addition, the board of directors shall safeguard the interests of the foundation in relation to subsidiaries, if any, inter alia by exercising shareholder engagement. Each member of the foundation's board of directors shall also act independently of individual interests.

The board of directors must strive to ensure that, as part of shareholder engagement in the foundation's subsidiaries, if any, the necessary dialogue with the board of directors of the subsidiaries is ongoing.

The board of directors must also ensure regular dialogue and exchange of information between the foundation's auditor and the board of directors.

The board of directors must lay down the strategic goals of the foundation and ensure that the prerequisites necessary to achieve such goals, in the form of financial resources and competences, are in place. The board of directors must also ensure an appropriate organisation of the foundation and its activities.

If the board of directors decides to employ an executive board, the board of directors must ensure that a competent executive board is employed and it must stipulate the tasks of the executive board as well as its conditions of employment and the allocation of responsibilities between the board of directors and the executive board. The board of directors is responsible

for exercising control of the executive board and for setting guidelines on how this control is to be exercised.

If the board of directors decides to have an administrator, the board of directors must stipulate the tasks of the administrator and reporting to the board of directors. The board of directors may not assign the administrator management functions, for example day-to-day management, which usually falls within the tasks of an executive manager. If the foundation does not have an executive manager, the board of directors is collectively responsible for conducting the day-to-day management of the foundation. In this situation, it would be appropriate for the rules of procedure of the board of directors to account for the distribution etc. of tasks.

2.1. Overall tasks and responsibilities of the board of directors

2.1.1 It is **recommended** that, in order to secure the activities of the commercial foundation in accordance with the purposes and interests of the foundation, the board of directors should, at least once a year, take a position on the overall strategy and distribution policy of the foundation on the basis of the articles of association.



Comment: The foundation's strategy should cover the areas that are essential to the foundation's activities, opportunities and challenges, in the short and long term. The starting point for the strategy is the purpose of the foundation as set out in the articles of association. The strategy discussion can also address the foundation's significance to society.

The strategy should include the commercial activities of the foundation. If the foundation's commercial activities take place through ownership of one or more companies, the strategy should determine how the foundation, through shareholder engagement of the companies, best supports the foundation's purpose and the development of the companies.

The strategy should also include the position of the board of directors on the distribution activities, including how the board of directors implements the purpose of the foundation. The board of directors should consider the purpose of the distributions as well as what the distributions add to the recipients and to society in general. In that connection, the board of directors should consider how the foundation communicates with its stakeholders about the foundation's distributions.

When deciding on the foundation's overall strategy, the board should focus on adjustments, clarifications and execution of the strategy.

2.1.2 It is **recommended** that the board of directors regularly address whether the foundation's management of its total capital is in line with the purpose of the foundation and its long- and short-term needs.



Comment: In general, the foundation's management of its total capital should ensure the long-term viability of the foundation and the opportunity for it to continue to fulfil its purpose and to support ownership of subsidiaries, if applicable.

The board of directors should define and continuously address the general principles according to which the board of directors manages the foundation's total capital. The general principles should, inter alia, concern the expected return, distributions, liquidity requirement in general, as well as the timing thereof, inter alia in relation to the foundation's commercial activity, distribution policy, investments and costs.

Referring to the purpose of the foundation, the board of directors should address the objectives of the foundation's investments, including asset types, risk profile, risk diversification and capital resources in relation to the foundation's activities, as well as monitoring and reporting.

2.2. The chairman and the other members of the board of directors

The most important tasks of the chairman of the board of directors are to ensure that the board of directors performs its management, strategic and control duties.

The chairman should ensure effective board work, including good communication with good and constructive relationships within the board and with an executive board, if relevant.

The chairman should also ensure that the individual member's special knowledge and competences are used in the best possible manner and for the benefit of the foundation.

The foundation's board of directors is collectively responsible for overall and strategic management. If the foundation does not employ an executive board, the board of directors is responsible for the day-to-day management and operation of the foundation.

2.2.1 It is **recommended** that the chairman of the board of directors organise, convene and chair meetings of the board of directors in order to ensure effective board work and to establish the best conditions for the work of the board members, individually and collectively.

” **Comment:** The rules of procedure for the board of directors can include provisions that, every year, an annual wheel or similar is adopted, which contains a plan for the year's meetings and for which topics are to be addressed at the individual meetings. The rules of procedure for the board of directors are an important tool containing procedures and guidelines for the board of director's work, which the board of directors should regularly review to ensure that they are in line with the foundation's activities and needs.

2.2.2 It is **recommended** that if the board of directors asks a board member to perform special activities for the foundation which extend beyond board duties, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, general management and control function. Appropriate allocation of responsibilities should be ensured between the chairman and the other members of the board of directors and the executive board, if any.

” **Comment:** The purpose of the recommendation is to ensure an appropriate allocation of work between the members of the board of directors when a member of the board of directors performs special activities that extend beyond board duties. It is therefore recommended that the board of directors decides on and records the measures that such special activities entail.

The special activities that extend beyond board duties are typically characterised by the board member receiving separate remuneration for performing them which is not part of board remuneration. Any remuneration for performing a special activity should also be stated in the board resolution.

If the board of directors has not employed an executive board, it is the board of directors as a collective body that is responsible for the day-to-day management of the foundation as part of their board duties, which is not considered the performance of a special activity.

The establishment of any board committees, e.g. focusing on the preparatory work for distributions or investments, is also not considered the performance of special activity.

The recommendation does not concern employment contracts, including when a board member is also employed as a director of the foundation.

The rules of procedure for the board of directors may include a general description of the tasks, duties and responsibilities of the chairman, a vice-chairman, if any, and the other board members.

The board of directors must be aware of any disqualification issues.

2.2.3 It is **recommended** that the financial statements disclose any transactions that the foundation has entered into with related undertakings. The information should include the nature of the relationship between the foundation and the related undertaking, the nature of the transaction and the amount of the transaction.



Comment: Disclosure of information about the foundation's transactions with related undertakings increases the openness and transparency that is a prerequisite for stakeholders etc. to gain insight into the foundation's affairs and the work of the board of directors. Openness and transparency also increase trust in the foundation.

In this context, related undertakings are considered to be undertakings that:

- a member of the foundation's board of directors or executive board or their spouses/permanent cohabitants
 - 1) participates in the operation of,
 - 2) participates in the management of or
 - 3) holds at least 5 percent of either voting rights or shares in
- relatives in the ascending and descending line or siblings of a member of the foundation's board of directors or executive board
 - 1) participates in the management of or
 - 2) holds at least 5 percent of either voting rights or shares in

Persons who participate in the management of the undertaking are members of the board of directors and executive board.

Persons who participate in the operation of the undertaking can, for example, be employees or partners in a consulting company.

The foundation's transactions with related undertakings should be disclosed in the financial statements regardless of whether they are deemed to be at arm's length or not.

Only transactions with related undertakings that are material should be disclosed. The general materiality criterion in the Danish Financial Statements Act is used to assess this. This means that according to the recommendation, disclosure of transactions that are insignificant is not mandatory. Where several insignificant matters are deemed to be material, such matters should be included.

The information should be presented in the notes to the financial statements. If the foundation has not had any transactions with related undertakings, the board of directors may choose to increase transparency by disclosing this in the financial statements.

If a specific transaction is covered by both the recommendation and the Danish Financial Statements Act's rules on related party transactions, the foundation is legally obliged to include the information in the financial statements in accordance with the rules of the Financial Statements Act.

2.3. Composition and organisation of the board of directors

Good governance of commercial foundations requires the composition of the board of directors to be appropriate in relation to its tasks and responsibilities.

The board of directors should be composed in a way that its tasks can be executed effectively in a constructive and qualified dialogue with the executive board, if any. It is essential that the board of directors only safeguards the purpose and interests of the foundation and that each member always acts independently of special interests. This also applies to members appointed by external entities that are entitled to make appointments.

Irrespective of how the board of directors is appointed, it has to make sure that it has the competences required to comply with legislation and the articles of association of the foundation, including the purpose and interests of the foundation, and thereby comply with the responsibilities incumbent upon the board of directors.

Appointment of members of the board of directors through co-opting can entail a risk of exclusion and lack of new talent, diversity, competences, etc.

The board of directors defines the competences required by the foundation, supplementing any provisions in this regard in the articles of association. At suitable intervals, the board of directors should consider whether the composition of the board and the competences of its members individually and collectively reflect the requirements imposed by the purpose of the foundation, including commercial and distribution purposes, strategy, financial position and other circumstances. The consideration should also include the ability and willingness of the members of the board of directors to impartially carry out the purpose of the foundation.

Diversity in relation to business and grants experience, age, gender, etc. can improve the quality of the work of the board of directors.

When composing the board of directors, it is important to ensure a good balance between continuity and new talent among the members of the board of directors.

Regular replacement contributes to new talent, including a renewed perspective on the foundation and its management.

If the board of directors ascertains that there are material weaknesses in the composition of the board of directors, it is incumbent upon the board of directors at its own initiative to change the composition, including in dialogue with an entity entitled to make appointments (if any) and if necessary in dialogue with the foundation authority.

A member of the board of directors may resign from the board at any time during the appointment period. It is only the foundation authority that can dismiss a member of the board of directors during an appointment period.

2.3.1 It is **recommended** that the board of directors regularly, and at least every second year, assess and stipulate the competences that the board of directors needs to possess in order to best perform the tasks and responsibilities incumbent upon the board of directors.

2.3.2 It is **recommended** that the board of directors approve a structured, thorough and transparent process for selection and nomination of candidates for the board of directors, taking into account any right in the articles of association to make appointments.



Comment: The preparatory process for selection and nomination of candidates should be approved by the board of directors and should ensure that the purpose of the foundation is carried out.

In order to ensure that the board of directors possesses the correct competences it may, for boards with many members or where new appointments are co-opted, be appropriate to set up a nomination committee to propose candidates on the basis of a structured process.

Before making appointments to the board of directors, it may be appropriate to conduct a dialogue with an entity entitled to make appointments about the board's assessment of the competences and attributes that the board should possess, individually and collectively, in order to best perform the tasks incumbent upon it. The dialogue should also include the board of directors' assessment of the need for diversity within the board of directors in relation to, inter alia, commercial and grants experience, age and gender, and the board of directors' expectations concerning other significant factors, such as time spent.

The board of directors should also ensure good on-boarding of new board members (and, if relevant, an executive board). Inter alia, the board of directors should ensure that new board members receive relevant information, including about any major projects, challenges, risks, etc. in the foundation and any of its subsidiaries.

2.3.3 It is **recommended** that members of the board of directors are appointed on the basis of their personal qualities and competences, taking into account the collective competences of the board. When composing and nominating new members to the board, the need for introducing new talent should be weighed against the need for continuity and the need for diversity in relation to, inter alia, commercial and grants experience, age and gender.



Comment: The board of directors should have a long-term succession plan for the board of directors and the executive board, if any. A succession plan should help ensure the right balance between renewal and continuity and that the board can respond quickly to changes or unforeseen events. The board of directors should also regularly review the succession plan.

2.3.4 It is **recommended** that both in the management commentary in the annual report and on the commercial foundation's website, if any, there is an account of the composition of the board of directors, including its diversity, and that the following information is provided on each board member:

- the name and the position of the member,
- the age and gender of the member,
- date of original appointment to the board, whether the member has been reappointed, and expiry of the current appointment period,
- any special competences possessed by the member,
- other managerial positions held by the member, including positions on executive boards, boards of directors and supervisory boards and board committees in Danish and foreign foundations, enterprises and institutions, as well as other demanding organisation tasks,
- whether the member owns shares, options, warrants and similar in the foundation's subsidiaries and/or associated companies,
- whether the member has been appointed by authorities/providers of grants etc., and
- whether the member is considered independent.

2.3.5 It is **recommended** that the majority of the members of the board of directors of the commercial foundation are not also members of the board of directors or executive board of the foundation's subsidiary(ies), unless it is a fully-owned actual holding company.

” **Comment:** The most important aspect is that, as part of the shareholder engagement, there is some distance to the board of directors of the subsidiaries performing the commercial activities. This is the only way to establish the required segregation of persons and functions to ensure that the foundation can safeguard its ownership interests and the control of the subsidiary and its management.

A fully-owned actual holding company does not have independent operating activities other than the ownership of the underlying companies. When there are no independent operating activities, the risk of complete conformity between the board of the foundation and the board of directors in its fully-owned holding company is not the same. In these special situations, recommendation 2.3.5 only applies between the commercial foundation and its operating enterprise(s).

There is no one governance model that is necessarily the right one, as it depends on the specific circumstances of the foundation and the company(ies) owned by the foundation. There are advantages and disadvantages regardless of what one chooses. The board of directors should therefore continuously assess the chosen governance model.

2.3.6 It is **recommended** that the board of directors elect the chairman and the vice-chairman (if any) of the foundation for one year at a time. Re-election may take place.

” **Comment:** The chairman is by law assigned a number of special tasks and duties. The board of directors should annually consider and actively choose who will serve as the foundation's chairman and vice-chairman (if any).

2.4. Independence

A commercial foundation is characterised by being self-governing and having no general meeting, and hence there is an absence of owners who can exercise control of the board of directors. It is therefore critical that the board of directors has the necessary independence, so

that the board of directors as a whole can carry out the necessary self-control and perform an impartial evaluation of current and previous decisions.

The board of directors should solely safeguard the purpose of the foundation as intended by the founder and stated in the articles of association, and should not be influenced by other interests.

The independence of a board of directors must be assessed on the basis of its ability and willingness to independently and impartially carry out the purpose of the foundation.

2.4.1 It is **recommended** that at least one third of the members of the board of directors (excluding employee representatives) are independent.

To be considered independent, this person may not, for example:

- be, or within the past three years have been, a member of the executive board or senior employee of the foundation or of an essential subsidiary or an essential associated company of the foundation,
- within the past five years have received larger emoluments, including distributions or other benefits from the foundation or a subsidiary or associated company to the foundation in other capacity than as member of the board of directors of the foundation,
- within the past year have had a significant business relationship (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management of companies with corresponding connection) with the foundation or a subsidiary or associated company of the foundation,
- be, or within the past three years have been, an employee or partner of the external auditor of the foundation or its subsidiaries,
- have been a member of the board of directors or executive board of the foundation for more than 12 years,
- be a close relative or in another way be very close to persons who are not considered as independent,
- be the founder or significant donor or contributor,
- be a member of the board of directors of the foundation if the purpose of the foundation is to grant support to the board member's family or others who are especially close to the board member,
- be a member of the management of an organisation, another foundation or similar, which receives or repeatedly within the past five years have received significant donations from the foundation, or
- be a member of the management of an organisation, another foundation or similar, which grants or repeatedly within the past five years have granted significant donations to the foundation.



Comment: If the board of directors (excluding any employee representatives) is composed of

- three members, at least one member should be independent,
- four to six members, at least two members should be independent,
- seven to nine members, at least three members should be independent, or
- ten to twelve members, at least four members should be independent, and so on.

The independence criteria mentioned above cannot be considered as exhaustive, and the board of directors may therefore also decide that a member is not independent for other reasons. When applying the criteria, the board of directors should focus on the substance of the situation rather than the form.

It is the responsibility of the board of directors to assess the real (actual and perceived) independence of its members, and the board of directors will decide which members are to be considered as independent in accordance with the recommendation. As part of this assessment, the board of directors may, among other things, consider whether its members who are also members of the board of directors of an essential subsidiary (unless the subsidiary is a fully-owned actual holding company) or of an essential associated company of the foundation can be considered independent.

The board of directors should not be influenced by interests other than conducting the purpose of the foundation as intended by the founder and as stated in the articles of association.

The above independence criteria do not apply with regard to the assessment of the independence criteria in section 1(2) of the Commercial Foundations Act, which state that the commercial foundation must have an independent management in relation to the founder.

2.5. Appointment period

At suitable intervals, the board of directors should consider the provisions in the articles of association on the appointment period for members of the board of directors. Depending on the size, activity and purpose of the foundation, an appointment period of two years may be too little time for a new member of the board of directors to familiarise themselves with all aspects of the foundation, and it may therefore be inappropriate. By contrast, an appointment period which is too long could obstruct the necessary dynamics and introduction of new talent to the board of directors.

2.5.1 It is **recommended** that members of the board of directors be appointed for a minimum period of two years at a time and a maximum period of four years at a time. Reappointment can take place.



Comment: An appointment period which is not excessively long sharpens the awareness of the board of directors of the issue of the composition of the board of directors and new talent.

An appropriate appointment period thus aims, inter alia, to ensure that the board of directors is composed in such a way that it always best matches the foundation's purpose, opportunities and challenges. An appropriate term also helps ensure independence. There should be a sensible balance between renewal and continuity in the board of directors.

Board members can be appointed by the existing board of directors or by a third party (an entity entitled to make appointments) outside the board. It can also be a combination of the two methods. The foundation's articles of association set out how the members of the board of directors are appointed. If the existing board of directors appoints new members, it takes place by vote in the board of directors and it should, as a general rule, take place at the board of directors' meeting on the adoption of the annual report. Any reappointment should also take place at the board of directors' meeting on the adoption of the annual report.

If a third party (an entity entitled to make appointments) appoints one or more board members, the board of directors may enter into a dialogue with the third party about the personal qualities or competences that need to be added to the foundation's board in order for the board to best perform its tasks.

2.5.2 It is **recommended** that an age limit for members of the board of directors be set, which is published in the management commentary or on the foundation's website.



Comment: An age limit for members of the board of directors is intended to ensure the right balance between renewal and continuity on the board. In addition, it is intended to sharpen the board's awareness and consideration of the composition and competence needs of the board in relation to the foundation's purpose and operations.

Members of a founder's family may be exempted from such an age limit.

Especially because foundations have no owners who can replace board members at a general meeting, an age limit can be an important mechanism for an effective board succession plan.

The committee does not recommend a specific age limit, nor has it taken a position on what age limit is appropriate. When setting an age limit, the board of directors must assess what age limit is appropriate for the foundation.

An age limit is not in conflict with the rules on non-discrimination, as a board position is not an employment relationship.

2.6. Evaluation

Evaluation is a valuable tool in a commercial foundation and is intended to form the basis for continuous improvement of the work of the board of directors and executive board and/or administrator, if any.

Board evaluation should help identify strengths and weaknesses as well as opportunities for improvement to ensure that the foundation continues to have effective leadership. Board evaluation can help ensure that the board has the right mix of competences etc. and that there is a good balance between renewal and continuity, including diversity.

The board of directors' evaluation of the work of the executive board and/or administrator, if any, contributes to ensuring that the guidelines and instructions issued by the board of directors are followed and to identify the cooperation between the board of directors and the executive board and/or administrator, if any.

The board of directors' rules of procedure and an annual wheel (if any) may include an overall description of how and when board evaluation and the evaluation of the executive board and/or administrator, if any, is carried out.

The chairman of the board of directors is responsible for conducting the evaluation.

2.6.1 It is **recommended** that the board of directors establish an evaluation procedure in which the contributions and performance of the board, the chairman and the individual members are evaluated annually, and that the result is discussed by the board. The nature and scope of the evaluation procedure will depend on the specific circumstances of the foundation and may vary from year to year.



Comment: At suitable intervals, the board of directors should assess its own efforts: Has the board of directors achieved its goals? How well does the collaboration and communication function between the board of directors and the executive board and/or administrator, if any?

The board should consider whether to involve external assistance in the evaluation process every three years.

2.6.2 It is **recommended** that once a year the board of directors evaluate the work and performance of the executive board and/or the administrator (where relevant) in accordance with predefined clear criteria and that the chairman reviews this with the person(s) concerned.



Comment: The board of directors and any executive board and/or administrator should agree in advance how the evaluation is to proceed.

Members of the executive board or administrators who are members of the board of directors should not take part in the board's evaluation of the executive board and/or administrator, respectively.

3. Remuneration of the board of directors and executive board, if any

Remuneration of the board of directors and executive board, if any, of the commercial foundations should be based on principles that support the long-term development of the foundation in accordance with its purpose and interests.

Especially in commercial foundations that do not have owners and therefore no general meetings to exercise control of the board of directors, it is essential to be transparent and open about all important aspects of the principles for and amount of the remuneration of the board of directors and executive board, if any.

3.1.1 It is **recommended** that any remuneration to the foundation's board members is fixed and not variable. Members of a potential executive board should also be remunerated with a fixed remuneration, possibly combined with a bonus which should not be dependent upon accounting results.



Comment: The remuneration includes all services and is provided for the responsibility and work effort associated with performing the duties of board member or employment as director.

Remuneration to the executive board (if any) thus includes salary, bonus or similar schemes, as well as any contributions to pension, but also other benefits such as free car, housing, telephone, internet or similar.

The position as board member of a foundation entails a special obligation to ensure that the board of directors' decisions on remuneration are made solely for the fulfilment of the foundation's purpose and interests and thus solely correspond to the responsibilities and work effort associated with the board position.

The foundation may only pay remuneration to members of the board of directors and executive board for work specifically performed for the foundation.

It is also the responsibility of the board of directors that remuneration, including bonuses, to members of an executive board, if any, is appropriate in relation to the executive board's work and responsibilities as well as the foundation's financial position.

No bonus or other incentive schemes should be granted to individual members of the foundation's board of directors. Such arrangements may imply that the personal interests of the individual may be in conflict with the purpose and long-term interests of the foundation. Due to disqualification, the board of directors is prevented from making decisions on bonuses or other incentive schemes for the entire board.

No pension can be granted to members of the board of directors as they are appointed to a specific position for a limited period of time. It is therefore not a form of employment that is remunerated with a salary from which a pension can be earned. Similarly, no severance payments, bonuses or similar may be granted to members of the foundation's board of directors.

The principles for remunerating members of the board of directors and members of the executive board, if any, must support appropriate long-term development of the foundation in accordance with the purpose of the foundation.

Remuneration of members of the board of directors may be merely a symbolic amount, and similarly, the board position may be unpaid.

If a member of the foundation's board of directors is a board member in the foundation's subsidiary(ies), the person in question should not be granted bonuses or other incentive schemes in the subsidiary(ies) as such schemes may imply that the board member's personal interests may be contrary to the purpose and long-term interests of the foundation.

Management members of the foundation should not be remunerated in whole or in part with shares in the foundation's subsidiary(ies).

The board of directors of the foundation should, as part of the foundation's shareholder engagement with its subsidiary(ies), address the principles of the subsidiary(ies) for remuneration of its board of directors and executive board.

3.1.2 It is **recommended** that the financial statements provide information about the full remuneration received by each member of the board of directors and executive board, if any, (itemised) from the commercial foundation and from the foundation's subsidiaries and associated companies. Furthermore, there should be information on any other remuneration which members of the board of directors and an executive board, if any, have received for performing other work or tasks for the foundation, the foundation's subsidiaries or associated companies, except for the remuneration of employee representatives as employees.



Comment: Since commercial foundations does not have owners, it is important that there is transparency concerning each member's total remuneration.

The information should be provided in the financial statements and not only in the management report, as it is the financial statements that the auditor audits.

If one or more members of the board of directors and the executive board, if any, receive no remuneration, this should be disclosed in the financial statements.

If a signing bonus, insurance, pension and/or severance schemes are agreed for the executive board, this will be considered as covered by the information on remuneration. Severance schemes cover a wide area, including period of notice, accrual of remuneration during the period of notice, severance pay, change-of-control agreements, insurance and pension schemes, payment of pension contributions after retirement, etc.



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