



NORGES BANK
INVESTMENT MANAGEMENT

OECD
Corporate Governance Committee
email delivery: dafca.contact@oecd.org

Date: 30.12.2014

OECD Principles of Corporate Governance

We would like to thank the OECD Corporate Governance Committee for the opportunity to submit comments on the draft revised OECD Principles of Corporate Governance dated November 2014.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. The fund is invested in assets of about NOK 6,000 billion, or approximately USD 800 billion. The fund is a long-term, globally diversified shareholder with minority equity positions in publicly listed companies. In addition the fund is invested in fixed income instruments and real estate.

Given our diversified portfolio, the promotion of good corporate governance practices is a long standing policy of ours. We encourage strong practices at the national and market level, as well as recognised standards at the international level. The OECD Principles is an important point of reference throughout the world. They are not in all respects at the forefront of corporate governance, and naturally cannot be, but they are applicable in most jurisdictions. Our corporate governance work spans more than 70 markets in which we hold equity. In this context, we experience the practical importance of the Principles as a point of reference for authorities and other standard setters in their work to update and improve practices in their home market.

Also in our mandate for the management of the fund, the OECD Principles are referenced as a basis for our ownership efforts. For our Principal, the Ministry of Finance, this reference serves to underline that our ownership efforts need to take commonly agreed principles as their starting point, in order to gather shareholder and issuer support and enhance legitimacy .

The draft revised Principles is a sensible update to reflect contemporary challenges.

We are supportive of the emphasis that the Principles put on the board of the company as the key instrument for good governance and accountability. We agree to the amendment whereby the Principles now state that separation of the two posts as chairman and CEO is generally regarded as good practice. We are supportive of the choice to maintain the reasoning behind the separation, namely that 'it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management.' We also support the emphasis on board evaluation as a means to maintain high quality boards. (Section VI.E)

We acknowledge the reflection of the diminished role of stock exchanges as public-utility oriented market regulators. Commercially driven exchanges may not have sufficient incentives to regulate and

Norges Bank Investment Management is a division of Norges Bank – The Central Bank of Norway

POSTAL ADDRESS
P.O. Boks 0179 Sentrum,
NO-0107 Oslo

OFFICE ADDRESS
Bankplassen 2,
Oslo, Norway

Tel. +47 24 07 30 00
Fax +47 24 07 30 01
Web www.nbim.no

Registration of
Business Enterprises
NO 937 884 117 MVA



enforce corporate governance. Given this development, we support the Principles' suggestion that public regulators should respond to the diminished role of exchanges. At the same time, we would emphasise the role of market-wise corporate governance codes. Such codes can be viable alternatives to regulation. Codes are flexible instruments that, if well crafted, can effectively coerce market participants into strengthened practices. When practiced within a 'comply or explain' regime, codes also allow innovations and justified exceptions. (Section I.D)

We welcome that the text on related-party transactions is strengthened. The purpose of scrutiny is well explained. The Principles rightly focus on disclosures as a way to enable monitoring. The principles do not advocate particular shareholder approval or third-party pricing verification regimes, even as such enhanced controls are in-place or being considered in major jurisdictions, for instance the European Union. For shareholder approvals, it is important that shareholders get sufficiently detailed information to understand potentially conflicting interests. This may not always be the case in jurisdictions where approval regimes exist. For third-party pricing assessments, the Principles could specify the necessary requirements for the third-party assessment to be truly independent and relying on relevant data. The Principles could also take a further step by suggesting a precise and rigid definition of related parties. Such a definition should cover a wide range of ownership and business interests, including corporate spheres. (Section II.F)

Enforcement is a key to the protection of the interests of minority shareholders when it comes to related party transactions. We support that enforcement has a prominent status in the proposed new first Principle. In the section on related party transactions, it could be useful to discuss enforcement in particular, given its importance for the protection of shareholders from abusive transactions. (Section II.F)

We note that the draft includes proposed requirements for institutional investors to disclose their policies with respect to corporate governance. This reflects a growing trend spearheaded by the stewardship code of the UK. We understand and support the desire for relevant and predictable conduct by investors in their role as shareholders. However, we would emphasise that for institutional investors to play an adequate role in corporate governance, they must have incentives to do so. There are several factors influencing that incentive. We believe that authorities can most effectively strengthen the incentives by focusing on transparency, the practicality of shareholder rights, the mechanisms by which boards are accountable to shareholders, and the room shareholders have to coordinate governance efforts with each other. Codified stewardship encouragement can bring only limited results in lieu of effective corporate governance tools for investors. There may be a risk that the disclosure requirements for institutional investors will lead to more box-ticking, not less. (Section III)

We support the notion that companies with listing outside the jurisdiction of incorporation, or with cross-listings, should disclose exactly which corporate governance framework applies. This fills a gap and is useful for investors. (Section III.F)

Institutional investors today hold international portfolios to a larger extent than when most national regulatory frameworks were designed. This combines with an increased desire by investors to exercise ownership. We believe the challenges of cross-border voting, and the exercise of cross-border ownership influence in general, remains an issue that deserves greater attention by the OECD. The principles have a highly relevant discussion on the impediments to cross-border voting in section II.C. This has been updated somewhat in the current draft. We believe, however, that the OECD can contribute to investor confidence and well-governed companies by co-ordinating efforts to improve cross-border shareholder involvement. This should focus not only on law and regulations in each market, but also on current market practices regarding information flows, custodian arrangements,




lack of standardisation of procedures, procedural unpredictability in the run-up to and during shareholder meetings, and the interaction between such factors. The aim should be make shareholder rights more effective, and ease the costs and administrative burdens associated with utilising them. The Principles should lay a basis for increased efforts in this regard. (Section II.C)


We also support the proposed requirement for companies to disclose major share ownership positions including ultimate beneficiary owners. This is sometimes necessary information in order to fully understand the true corporate governance circumstances of a company. (Section V.3)

Once again, thank you for providing us with an opportunity to contribute our views.

Yours sincerely



Yngve Slyngstad
Chief Executive Officer



William Ambrose
Global Head of Ownership Strategies