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Date: 19 April 2010
Your ref.:
Our ref.: okg

Delivered via email: stewardshipcode@frc.org.uk

Dear Ms Haan,

Consultation on a Stewardship Code for Institutional Investors

We appreciate the opportunity to comment on the consultation on a stewardship code for institutional investors, although we are aware that there is no intention to introduce mandatory requirements for foreign investors.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian central bank (Norges Bank) and is responsible for investing the international assets of the Norwegian Government Pension Fund Global. NBIM also manages the major share of Norges Bank's foreign exchange reserves and the Government Petroleum Insurance Fund.

NBIM sees itself as an institution seeking to achieve highly efficient, value-creating and responsible investment practices for the benefit of the Government Pension Fund Global and the other funds that we manage.

The UK is one of 55 national markets in which we invest in equity. Of the £ 316 bn under management globally, we currently have £ 28.5 bn invested in stocks of 400 UK companies, bringing our average holding to above 1.7 percent.

The size and breadth of our UK holdings bring with them considerable opportunities for working to create and protect value through dialogue with portfolio companies, standard setters, and other market participants. Over the last 12 months NBIM engaged in dialogue with more than 20 UK companies, we voted at practically all shareholder meetings in 2009 (575 AGMs/EGMs) and we participated in the consultations on both the Walker Review and the Combined Code. NBIM aims at utilising the opportunities available to us as an investor for the benefit of the owners of the funds we manage, and the wider UK equity market.

As such we welcome the efforts of the FRC alongside the UK government, Sir David Walker and many other players, to further develop an environment that facilitates considerate dialogue between companies and their owners. We also understand the frustration that can sometimes be felt as to the lack of interest on the investor side, the reports from companies on a variable quality of the engagement, and the sometimes narrow

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focus on executive pay. In particular, we recognise that investors could have done more to guide companies onto a safer path prior to the financial crisis. There has been a lot of learning on the part of investors in this respect.

It is our clear ambition to contribute to effective investor dialogue with companies. However, we have equity stakes in more than 8.300 companies and will focus on dialogue with a number of companies carefully selected. We would therefore at any point in time emphasise a subset of our portfolio companies in this work. At the same time we acknowledge with satisfaction that other institutional investors may focus on different companies. Since our principles, expectations and preferences often coincide considerably with other investors, we appreciate their engagement without our direct participation. In other cases there is a need for explicit co-ordination and collaboration among investors in order to achieve our mutual interest.

Key questions are then:

Will an elevated status of a stewardship code help in these efforts? Will the code help guide our efforts? Will it bring more investors into meaningful engagement activities? Will it improve the climate in which the dialogue takes place?

We do not know the full answers to these questions today. However, we remain of the belief that the opportunities for protecting value through good stewardship should be emphasised. A well-formulated stewardship code can bolster the legitimacy of constructive engagement. It can help in demonstrating that considerate engagement is not just an option, but best practice. The discourse, fostered by a stewardship code, can help illustrate that by engaging in owner-company dialogue one investor can make similar action by other investors more meaningful, thereby creating a positive feedback loop.

We are also aware of obstacles to the development of an effective communication. An underlying challenge to the intimacy of the company-investor dialogue is the benefits sought by most asset owners through a high degree of diversification of investment. The high number of companies – in the UK and overseas – into which an institution typically has invested will naturally increase the distance between the owner and the investee. We think the code – however positive – will not fully resolve this issue. Beneficial owners may also have challenges in incentivising the institutional investor to support value creation through engagement.

The FRC consultation paper raises interesting questions on the content of the code, with reference to the ISC code.

What are the responsibilities for engagement of institutional shareholders to the beneficial owners whose interests they represent? The answer varies by institution, we believe. Our principal, the Ministry of Finance, has mandated NBIM to support the long-term value of the fund through the use of shareholder rights and engagement with portfolio companies and market standard setters. Engagement is seen as a necessary component of investment management.

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What are the responsibilities for engagement of institutional shareholders to the UK listed companies in which they invest? We believe engagement when necessary is the preferred route. However, we remain of the view that investors also have the right to invest without engaging. This feature indeed is a predicament for the global success of the public stock company model, and at the same time also one of its inherent weaknesses.

Our direct engagement will be targeted to where the value proposition is most convincing. That we do not regularly approach every investee company should not be interpreted as a lack of interest in its communication with the market. It should rather be seen as support to the communication performed by other often like-minded peer investors. It could also be that we consider the company communicates well with the market and that there are no major issues that warrant deep engagement. Finally, our direct dialogue is supplemented by our communication of general principles and expectations on the governance of companies.

Given the reality of diversified investment and our efforts at mitigating the embedded distance through various means of communication, we suggest care should be taken to avoid introducing a prescriptive duty to engage, as this would imply a risk of producing formulaic communication that will add little value and only increase frustration for both investors and companies.

As a global institutional investor we understand and accept that corporate governance standards must to some degree vary between markets. And as such we recognise that the UK governance standard is a leading example for many market standard setters globally. We do, however, strive to be consistent in our expectations and approaches across geographies. In line with this we would like to avoid a situation in which institutions like us would have to declare market by market how they comply with local codes for company contact.

Yours sincerely,



Anne Kvam
Global Head of Ownership Strategies



Ola Peter Krohn Gjessing
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