



NORGES BANK
INVESTMENT MANAGEMENT

*The Council of Experts for the Follow-up of the Stewardship Code
and Corporate Governance Code*
FSA

Date: 21.06.2016
Your ref.: [Reference]
Our ref.: RUR

by email to sccgfollowup1@fsa.go.jp

Response to FSA's request for comments on the issues concerning constructive dialogues between companies and institutional investors

Dear Sirs,

Thank you for contacting us for comments on questions concerning dialogue between companies and institutional investors.

Norges Bank Investment Management (NBIM) is the investment management division of Norges Bank, the central bank of Norway. We are responsible for investing the Norwegian Government Pension Fund Global (the fund). The fund is a long-term, globally diversified shareholder with minority equity positions in publicly listed companies. The fund also invests in fixed income instruments and real estate. The fund has assets of approximately 855 billion USD, of which approximately 60 billion USD is invested in Japanese securities. We hold ownership in close to 1 500 Japanese stock exchange listed companies.

We support strong corporate governance practices at national and market level, as well as adherence to recognised international standards of corporate governance. We consider the OECD Principles of Corporate Governance to be an important point of reference for all the markets in which we invest.

NBIM has a long-term focus on Japanese corporate governance. We have actively monitored the corporate governance reform process in Japan over the last years and we provided our comments to the drafting committee of the Japanese Corporate Governance Code in 2015. NBIM is a member of the Asian Corporate Governance Association (ACGA) and we have actively participated in ACGA discussions on the Japanese reform process and given our input to ACGA's advocacy work and submissions to Japanese regulatory bodies.

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We met with FSA in September 2014 as part of an investor group arranged by ACGA. We also met with FSA in September 2015 as part of NBIM's own corporate governance outreach to Japan to meet companies, Japanese investors, experts and regulators to discuss the ongoing reform process and to communicate NBIM's corporate governance priorities. As part of this outreach program, we shared our views on the stewardship and corporate governance codes at a seminar in Tokyo where representatives of 180 Japanese companies were present.

We believe the Council of Experts for the Follow-up of the Stewardship Code and Corporate Governance plays an important role in guiding companies and investors in their implementation of the two codes. We would like to give our comments to some of the issues you raise in your request paper concerning constructive dialogue between companies and institutional investors.

Quality of dialogues between companies and institutional investors

Considerate stewardship is not just an option, but best practise. Investors should engage with companies to protect and enhance value on behalf of beneficiaries or clients. This includes a range of material factors such as strategy, financial performance, shareholder rights, stakeholder relations, board effectiveness, risk management, business conduct, remuneration and broader ESG considerations.

A stewardship code most fundamentally applies to investors, both asset managers and asset owners. While companies as issuers are not themselves signatories to stewardship codes, they do have a role to play to make a stewardship code effective, through cooperating in good faith with investors, particularly in the engagement process, and more generally in respecting shareholder rights. Transparent and comprehensive public communication by companies is a necessary aspect to constructive stewardship. Stewardship can be applied to equity holdings regardless of investment style; for example, it applies to both actively and passively managed assets.

At the same time, we wish to emphasise that stewardship needs to be considerate and that engagement may not always be the preferred route. Investors also have the right to invest and to cast votes at general meetings without engaging. Stewardship is not a "one size fits all" exercise. Investors are different, they are of different sizes, they have different investment strategies and they have different investment portfolios.

Finally, investors are accountable to beneficiaries that have different expectations and goals. These are all factors that affect how each individual investor decides to carry out its stewardship responsibilities. One should avoid introducing a prescriptive engagement that would imply a risk of producing formulaic communication that will add little value and only increase frustration for both investors and companies.

Norges Bank Investment Management's company dialogues

We have equity stakes in more than 9,000 companies globally and must focus our engagement efforts towards a number of carefully selected companies. We prioritise contact with companies based on holding value, ownership

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share, specific pre-defined themes and companies that present particular challenges. Given the size of the fund, we may often be one of the largest shareholders in a company.

For 2015, we prioritised five themes for our predefined interaction with companies. These were, i: board nomination processes, ii: equal treatment of shareholders, iii: Japanese governance reform, iv: corruption and, v: sustainability. We also engaged with companies based on event-driven cases when considered material to the fund, as well as with selected companies under the guidelines for observation and exclusion from the fund. Norges Bank Investment Management held 3,520 meetings with companies in 2015. We raised environmental, social or governance issues at 1,582 of these meetings.

We record company interactions centred on company-specific ownership goals. This enables us to document systematically the goals of company engagements before the start of the dialogue and measure progress over the duration of the company engagement. All engagement with companies is carried out in-house, regardless of the company being held in an active, or passive portfolio, or being internally or externally managed. We take an overall portfolio view on setting the engagement strategies based on the above specified prioritisations.

Transparency of proxy voting

The example for disclosure of voting records by Japanese institutional investors given in the document shows that most companies disclose voting records at an aggregated level. It would be fair to say that such information will be of limited value to stakeholders, including investors.

Norges Bank Investment Management discloses full voting records on our web site on the day subsequent to each company meeting. Our practise follow what we regard as global best practise when it comes to transparency of voting records. Investors should show how they cast their votes at the individual agenda item at each holding. Voting records should be supported by disclosure of voting policies.

Our view of what constitutes best practise is supported by international and national best practise codes. The OECD Principles of Corporate Governance states that disclosure of actual voting records is regarded as good practice. In the US, it is mandatory for mutual funds to publicly disclose how they vote. The US Securities and Exchange Commission requires mutual funds and other registered management investment companies to disclose how they cast their votes at the individual holding. The UK Stewardship Code states that institutional investors should disclose publicly voting records and if they do not, explain why. The International Corporate Governance Network Guidance on Institutional Investor Responsibilities states that as a matter of best practise institutional investors should disclose, where possible their full voting records.

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Proxy advisors

Norges Bank Investment Management regards proxy advice as a commercial, client-demanded service and supportive to our active ownership activities. We currently buy and commission a range of services and research products from several proxy advisory firms and we execute votes via an electronic platform owned and operated by a proxy advisory firm.

In addition to proxy research, we use the collective analytical resources of our internal ownership and investment teams, supporting databases and a variety of external specialists in our voting process. Consequently, the final voting decision on all resolutions at every company meeting is NBIM's. This is irrespective of what proxy advice we have access to or may choose to consult.

We have a commitment to vote all our holdings wherever practical to do so. We have established voting guidelines that provide a principled basis for our voting decisions, but we also take account of individual companies' unique characteristics in our voting decisions.

It is important to recognize the right for companies to establish and explain unconventional corporate governance practices. Proxy advisors must have the resources to accommodate this. We consider that proxy advisors are generally successful at achieving this balance. The proxy advisors we work with have made significant effort to incorporate local factors into their voting guidelines, which has led to generally high quality research.

We believe it is important that proxy advisors clearly state the reasoning behind the recommendation given for any resolution. We realise the impossibility of having a pre-defined voting guideline for every possible iteration of every resolution. However, this only underpins the importance of providing a clear and transparent rationale for each vote recommendation. This includes transparency on the facts used, any guidelines applied, any representations made, as well as the level of analyst opinion that may contribute to the final recommendation. NBIM regards it as a key task to monitor the methodologies and guidelines used by each proxy advisor we use. Should we at any time conclude that the guidelines do not accurately reflect the views and ownership principles of NBIM, we will revise our bespoke voting guidelines or change proxy advisor.

We encourage all voting research providers to strengthen the process by which new clients are "on-boarded". It is imperative for the legitimacy of the voting research process that the final voting responsibility lies, and is understood to lie, with the shareholder. All advisors should ensure a robust "on-boarding" process where shareholders must make active decisions in formulating the guidelines that drive voting decisions. The outcome of an enhanced process will be the welcome diminution of voting adviser influence on blind application of a single voting recommendation by shareholders.

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The apparent influence of voting advisers most often results from the confluence of the interests of diversified shareholders. There is broad consensus on the key principles of good governance that set the foundation for the respective voting guideline for most major institutional investors, and second, investor clients are invited to give input to the guidelines of their contracted proxy advisers through annual investor consultations. This is constructive as it contributes to the legitimacy of guidelines as being a fair reflection of market opinion and it ensures the policies of proxy advisers' evolving over time in line with market opinion and governance best practises.

Finally, proxy advisers cannot be held responsible if their clients choose to follow their recommendations. The responsibility for the vote lies solely with the investor purchasing the advice.

Once again, thank you for providing us with the opportunity to contribute our views. Please do not hesitate to contact us if you would like any further input to your discussions.

Yours faithfully,



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