



NORGES BANK
INVESTMENT MANAGEMENT

Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel
Switzerland

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Corporate governance principles for banks

We would like to thank the Committee for the opportunity to submit comments on the consultative document on the Guidelines on Corporate governance principles for banks of October 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 5,500 billion, or approximately USD 860 billion as of the end of the third quarter 2014. Out of this, USD 57 billion is invested in bank equity and USD 42 billion in fixed income in banks. 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.

We would like to support the view that corporate governance is a critically important element in the work to promote a banking system that is resilient and at the same time provides high-quality utility in increasingly complex economies. As a global investor we are not only a user of banking services and a beneficiary of the positive externalities of a well-functioning banking system, but we are also investors in fixed income and equity capital in banks. In all of these capacities it is our opinion that, within a robust framework for capital, credit, liquidity and operational risk, banks must be encouraged to operate commercially to produce an adequate return. The return motive of investors helps incentivise banks to drive efficiency, innovation and adaptation to structural changes in the economy. There is little utility in resilient banks if their services are not adequately serving the economy.

We recognise that the Principles are intended to be applicable under a variety of corporate governance arrangements observed across markets. However, we believe that banks, given their critical role in the economy should strive for the best corporate governance standards possible, regardless of which market they are regulated by. Our basis for encouraging highest possible

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



standards is the OECD Principles for Corporate Governance, but also the recognized best practice in highly developed markets.

In this regard, we emphasise the role of the board chairman, and hence would recommend that the chair upon election has the status of recognised full independence from management, dominant shareholders, external business interests and the government. He or she should be expected to commit time commensurate with the complexity of the task and any contingencies, possibly amounting to the equivalent of between a third of a work week and a full work week depending on the size and complexity of the bank. Despite this recommendation we support the measures listed in the draft to mitigate the adverse impacts on the bank's checks and balances should the chairman be the CEO.

Furthermore, banks should be encouraged to aim at practices leading to strong shareholder rights, with the purpose of ensuring that the board is fully accountable to shareholders. Only if active shareholder monitoring is possible can corporate governance truly contribute to the robustness of banks. *Inter alia*, effective shareholder monitoring requires deep transparency on operations as well as governance processes, unhindered voting rights proportionate to equity holdings, and reasonable commitment by the board to shareholder communication including on board nomination related issues.

We are supportive of the individual measures suggested by the Committee. In particular we believe the Committee is rightly emphasising the quality and relevance of the composition of the non-executive bench of the board. We recognise that shareholders collectively have the responsibility for electing the board and subsequently to monitor its work. The board must be accountable to shareholders in order to function as an effective mechanism for the monitoring of management. The monitoring by the board would then focus on management's implementation of strategy and the quality of the bank trade.

On this basis, we would like to emphasise that the board should be given a regulatory framework that not only ensures the resilience of the banking sector, but also encourages commercial behavior and profitability for equity investors in banks. We encourage the Basel Committee to make this purpose clearer in the introduction to the revised Principles. The Principles should make clear that the board should have the ability to organise its risk oversight in ways that leave ample time and attention to the business strategy development, approval and implementation. These primary activities should entail the development of strategy including the management of bank risk strategies, and the monitoring of management in its implementation of strategy.

While the Principles (existing as well as draft) devise a role for the board in the recruitment of officers reporting to the chief executive, we would like to emphasise that such involvement by the board should not undermine the full responsibility that the CEO must assume towards the board.

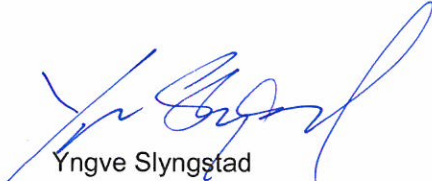
Likewise, we see roles for supervisors in overseeing processes for for board nomination and recruitment of key managers. Supervisors, depending on the regulations in place, play roles in vetting key individuals as they get recruited to board and management. However, we would emphasise that such controls should not undermine the accountability of the board towards shareholders, and the accountability of management towards the board.

In summary, we support the draft Guidelines. However, we suggest that the Committee recommends that banks and supervisors aim for best practice corporate governance that emphasise chairman independence, shareholder rights, disclosure and transparency and board accountability. In tandem with a robust regulatory framework, strong and performance oriented governance can contribute to sustainable banking operations.




We again thank the Committee for issuing the consultative document, and would like to extend an invitation for the Committee to respond for further discussion should that be useful.

Yours sincerely



Yngve Slyngstad
Chief Executive Officer



William Ambrose
Global Head of Ownership Strategies