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Date: 09.09.2016
Your ref.: [Reference]
Our ref.: OKG

FSB Peer Review on Corporate Governance

Norges Bank Investment Management welcomes the invitation to provide feedback as part of the Financial Stability Board's peer review on the implementation of the G20/OECD Principles of Corporate Governance. Norges Bank Investment Management is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. As of 30 June 2016, the fund was invested in 852 billion USD of assets globally. Our basis for providing input is our long-term and global investment management mandate.

We note that the objective of FSB peer reviews is, inter alia, to assess the effectiveness of international financial standards in realizing their intended results. The FSB makes an interesting choice by studying the effectiveness of the G20/OECD Principles of Corporate Governance in contributing to financial stability. In addition to assessing and guiding on implementation, the FSB may recommend further development of international standards if needed. We are looking forward to the FSBs findings, and will in this letter provide some perspectives that we hope will be of help in the review.

The strengthened regulatory supervision of financial institutions that necessarily followed the financial crisis should take care to support principles of good corporate governance. It became clear that there was a strengthened need for supervisors to look over the shoulder of boards of financial institutions. Supervisors scrutinize the proceedings of boards and may be involved in reviewing board candidates. However, even when such scrutiny takes place there should be no doubt that the board is ultimately responsible for management hire, oversight and review. At the same time, the board should be accountable to shareholders. Shareholders collectively should be able to prompt board changes by voting against re-election, if they are not satisfied by the way financial institutions are governed or run. Nomination of board candidates should take place in a process that takes due regard of the board's accountability towards shareholders. Promotion of principles of accountability towards the board and shareholders respectively should align with the FSBs remit to ensure systemic resilience while at the same time allow a competitive environment. We would suggest that the peer review considers how the accountability that characterizes good corporate governance has been affected by enhanced supervision of financial institutions.

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Another interesting avenue is to study the quality of the boards of financial institutions. Boards should be staffed and organised in order to effectively discharge of the duty to advise and monitor management. The G20/OECD Principles suggest that objective independent judgement requires a sufficient number of board members to be independent of management. We would suggest that the peer review examines corporate practices in this regard with an eye to whether the independent board members as a group also possess sufficient and updated financial industry expertise. We believe such qualifications are necessary to exercise objective, independent and effective judgment.

Board effectiveness may be impacted by the availability and preparedness of board members, and in particular the board chair. We are aware that across markets, there are somewhat different norms as to the acceptable time commitment of board members. Time commitment, e.g. the number of board assignments, would be a natural aspect of the FSB's peer review. We believe a board chair of a large financial institution should usually avoid chairmanships of other large companies or other major commitments.

In terms of board structure, the G20/OECD Principles suggest that the objectivity of the board and its independence from management may be strengthened by the separation of the role of chief executive and chair. The Principles state that separation of the two posts is generally regarded as good practice, while designating a lead director is regarded a good alternative in some jurisdictions. It would be of interest if the peer review could draw on its cross market nature to assess whether and when the CEO/chair combination in financial institutions may be a beneficial alternative from the perspective of the exercise of objective independent judgement and the pursuit of financial stability.

Good corporate governance cannot in itself guard against financial instability. However, good governance can make it easier to early identify and curb excessive risks arising from misaligned interests that could potentially develop into financial instability at the company or system levels.

Therefore, we commend the FSB for reviewing the implementation of corporate governance principles in financial institutions, and encourage, in particular, the study of the crucial role of the board. With an accountable, highly qualified and well-structured board many other aspects of good governance will follow.

Yours sincerely

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