



**NORGES BANK**  
INVESTMENT MANAGEMENT

Primary Markets Policy Team  
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Our ref.: [Reference]

## Proposal to create a new premium listing category for sovereign-controlled companies

We refer to your consultation paper on the proposal to create a new premium listing category for sovereign-controlled companies, dated 13 July 2017, and we welcome the opportunity to contribute our response.

Norges Bank Investment Management (NBIM) 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 had assets of USD 957 billion at 30 June 2017, of which GBP 44 billion was invested in equities listed on the London Stock Exchange. NBIM is a globally diversified investment manager with an equity portfolio consisting of minority stakes in listed companies. We regard the protection of minority shareholder rights as a requirement to safeguard and promote the fund's long-term financial interests.

NBIM supports measures that motivate companies to go public to raise capital and share risk, both in the early phase of their life cycles and in more mature stages<sup>1</sup>. We also recognise the FCA's objective of enhancing the accessibility and attractiveness of UK markets. At the same time, we note that the proposal would create a new category where companies benefit from the advantages of premium listing – including investor confidence – without having to meet some key requirements for investor protection.

The FCA envisages relaxing related-party and controlling-shareholder rules for sovereign-controlled companies. These rules were introduced to provide the necessary checks and balances to protect the interests of minority shareholders from potential abuse. We consider these safeguards to be particularly important when the company has a controlling shareholder, such as a sovereign state. Without such safeguards, a controlling shareholder could be in a position to take measures that are not aligned with the long-term interests of either the company or other investors. Ultimately, investors expect today's high standards of shareholder protection to apply to the premium listing category, whether controlled by a sovereign state or private investors.

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<sup>1</sup> We addressed this issue in "[The Listings Ecosystem: Aligning Incentives](#)", *Asset Manager Perspectives* 1/2016, Norges Bank Investment Management.





Under the FCA proposal, related party transactions between the listed company and the foreign controlling shareholder and/or its associates would no longer be subject to requirements regarding notification and, where applicable, independent shareholders' vote. The related-party transaction rules were established so that minority shareholders can verify the integrity of a business transaction and prevent misuse of company assets. In its Guidelines for State-Owned Companies, the OECD recommends that "*in situations where there may be a conflict between the interest of the state and those of minority shareholders, such as related party transactions, [...] the involvement of minority shareholders in the approval process of such transactions should be considered*".<sup>2</sup> We consider the related-party rules to be important for all companies with premium listing.

Furthermore, we regard the controlling-shareholder rules as essential to guarantee the equal treatment of all shareholders when the company has a controlling shareholder. Existing rules include a written and legally binding agreement between the controlling shareholder and minority shareholders to ensure that the company is run in the interests of all shareholders. The current rules also allow minority investors to participate in a meaningful way in the election of independent directors through a separate vote by independent shareholders. We fear that relaxing these rules would reduce the voice of minority investors and undermine the independence of the board.

Finally, we note that the proposal would make depositary receipts derived from equities eligible for premium listing in the new category. Depositary receipts are not eligible today for premium listing, and we fail to see the justification for making an exception for sovereign-controlled companies.

The UK has an advanced corporate governance framework that is often considered best in class worldwide. This helps encourage investor confidence and attract capital to UK markets. The proposal, as currently drafted, could be seen as a step back in terms of investor protection. We believe the FCA should consider a more balanced approach that takes into consideration the interests of all stakeholders in the listing environment.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully

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<sup>2</sup> OECD "[Guidelines on Corporate Governance of State-Owned Enterprises](#)", 2015 edition.