



NORGES BANK
INVESTMENT MANAGEMENT

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Voting Rights Consultation

We refer to the discussion on the eligibility of voteless companies for inclusion in equity indices following the initial public offering (IPO) of Snap Inc. We appreciate the interest that FTSE Russell has taken in the issue by announcing the consultation on 26 May 2017, and we welcome the opportunity to provide our response.

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 had assets of USD 873 billion at the end of 2016, of which USD 547 billion was invested in equities in 78 national markets worldwide. As a highly diversified global investor, we rely on well-functioning equity markets. We welcome the decision of companies to go public to raise capital and share risk.¹ We actively exercise our voting rights and promote good practices across markets. In the U.S. market, we are a member of the Council of Institutional Investors.

The specific question raised by the Snap Inc. IPO is whether equity indices should include instruments issued by companies that have no voting shares listed. Currently, this is an extremely rare, if not unique, situation. The broader question is how multiple class shares and unequal voting rights, particularly with new listings, are changing the market for equity investors.

Index providers balance two important considerations, as described in the FTSE Russell Statement of Principles. The first is "to reflect the investment markets included in the index definitions and to facilitate the detailed analysis of such markets." The second is that the "interest of all users should be considered in managing the indexes".² We believe that including voteless companies in the index effectively disadvantages users of the index, and in particular index tracking investors, who seek formal influence over the companies in which they invest.

¹ We addressed this issue in "The Listings Ecosystem: Aligning Incentives", Asset Manager Perspectives 1/2016, Norges Bank Investment Management (<https://www.nbim.no/en/transparency/asset-manager-perspectives/2016/the-listings-ecosystem-aligning-incentives/>)

² Statement of Principles for FTSE Russell Market Capitalization Weighted Equity Indexes v1.8. July 2016

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In this context, we value the proposal put forward by FTSE Russell to make voting rights a criterion for index inclusion. We believe that the main objective of FTSE Russell's proposal should be to exclude voteless companies. At the same time, we also believe that there could be an opportunity to encourage companies to allow shareholders some meaningful degree of formal influence. One way of defining a meaningful degree of formal influence could be the ability of shareholders to put forward shareholder proposals or to call a shareholder meeting. In many markets, such shareholder initiatives require a specific percentage of votes.

We would therefore support the introduction of a minimum threshold based on a ratio of the company's voting rights, as suggested by FTSE Russell. Any constituent failing to clear the threshold should have its investability weight reduced. Voteless companies should have zero investability weight. When setting a threshold, FTSE Russell could take into account the ability of shareholders to exercise formal influence, perhaps with an added headroom. The ratio used to set the threshold should be consistent, replicable and take into account the investability of voting shares, e.g., by including only eligible voting shares.

We would advise against making a threshold too hard, with anything above that threshold treated equally. That could lead constituents, new ones in particular, to place themselves close to such a minimum threshold. We would prefer to maintain an incentive for all constituents to give shareholders additional voting rights, by scaling index weight according to voting power throughout the range of the latter. This would improve consistency in the treatment of voting rights, and while increasing the administrative burden on FTSE Russell, that could be mitigated, e.g., by a slow rebalancing cycle and, if necessary, a banding approach like FTSE in the past employed for free float.

We believe that the proposal is relevant for considering the eligibility of new constituents. At the same time, we believe that over time it is not tenable, or practical, to differentiate between new and existing constituents. We would therefore support a grandfathering period for existing constituents before they are tested against a voting rights rule.

We appreciate your willingness to consider our perspectives, and remain available for further discussion should that be of interest.

Yours faithfully,

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