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Consultation on the treatment of non-voting shares in the MSCI equity indexes

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 MSCI has taken in the issue by issuing a proposal for the treatment of non-voting shares on 12 June 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 US 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 MSCI Global Investable Market Indexes Methodology. The first is "to appropriately reflect the international investable opportunity set of equities". The second is "addressing the changing and expanding investment interests of cross-border investors".² We believe that including voteless companies in the index effectively disadvantages users of the index 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.

² MSCI Global Investable Market Indexes Methodology. Index Construction Objectives, Guiding Principles and Methodology for the MSCI Global Investable Market Indexes. June 2017.

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In this context, we value the proposal put forward by MSCI to make "voting power" a criterion for index inclusion. In addition to excluding voteless companies, this would 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. Any constituent failing to clear the threshold should have the investability weight of all its securities (both voting and non-voting shares) reduced. Voteless companies should have a zero investability weight. When setting the threshold, MSCI could take into account the ability of shareholders to exercise formal influence. The ratio used to set the threshold should be consistent, replicable and take into account the investability of voting shares. We believe that "voting power" should be calculated as the voting rights in the hands of unrestricted (free-float) shareholders over total voting rights of the company. Securities with limited voting rights should not be considered as voting shares.

We would advise against making the 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.

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 agree with your assessment that environmental, social and governance (ESG) issues are increasingly important at the investment policy level. At the same time, we believe that voting rights are a fundamental issue for all investors. Broader ESG issues can be addressed in specialised indices or by individual investors according to their mandates.

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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