Dear Sirs

Principles for enhancing corporate governance – Consultative Document

We refer to the Basel Committee on Banking Supervision consultation on principles for corporate governance of banks. NBIM supports initiatives that seek to strengthen the quality of corporate governance and we welcome the opportunity to contribute to the review of corporate governance principles for banks.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian central bank (Norges Bank) and is responsible for investing the international assets of the Norwegian Government Pension Fund. NBIM also manages the major share of Norges Bank's foreign exchange reserves and the Government Petroleum Insurance Fund. NBIM holds assets in excess of NOK 2800 billion, (€355 billion) of which approximately 25% is invested in financial institutions. NBIM is committed to make active use of its ownership rights in order to safeguard the financial interest of the fund by promoting good corporate governance in investee companies.

We believe the drafted Principles are balanced, appropriate and address the central aspects of corporate governance. Still they are substantially similar to the 2006 Principles. Those Principles were not able to prevent the financial crisis that erupted in 2007. We therefore question how best to turn the drafted Principles into improved company and board behavior.

The importance NBIM attaches to board accountability is well reflected in the Basel Principles. We are in favor of independent chairmanship, regular non-executive board meetings, competent and 100% independent board committees, and board information systems separate from management.

In particular, we welcome three measures that we believe would help enforce the reviewed Principles. First, being mindful that the CEO's accountability to the board should not be reduced by the implementation of an effective Chief Risk Officer, we commend the implementation of a board risk committee and a CRO as outlined in the Principle 6. An
effective CRO will balance the need for risk taking, which is essential for any business to thrive, against unknown and unplanned risks which can quickly undermine the business. Further, the CRO will ensure comprehensive risk information to the board.

Second, we propose a tool for enforcing Principle 12 which states that the board and senior management should know and understand the bank’s operational structure and the risks that it poses. We recommend that management should present to the board the complete organizational and operational structure including a process chart which identifies key drivers of revenues and risks. Further, we suggest that at least the organizational structure should be published periodically to shareholders.

A final issue the Basel Committee on Banking Supervision must solve where these Principles sit among similar principles including EU, national corporate governance codes and listing requirements. We acknowledge the difficulty for banks to comply with a variety of different rules. We encourage banks to adhere to the Basel corporate governance Principles in the same way as they adhere to the Basel capital requirements.

NBIM commends the ambition of the revised Basel corporate governance Principles. Ensuring implementation is now the challenge and will require behavioral changes by boards, executives and investors. We need to be ambitious in actions as well as intentions to prevent future financial crisis.

Yours sincerely

Anne Kvam
Global Head of Ownership Strategies

Vegard Torsnes
Senior Analyst Ownership Strategies