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INVESTMENT MANAGEMENT

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Consultation on the Eligibility of Non-Voting Share Classes

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 S&P Dow Jones has taken in the issue by announcing the consultation on 3 April 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. We actively exercise our voting rights and promote good practices across markets, and in the U.S. market we are a member of the Council of Institutional Investors.

Index providers have important roles in financial markets, such as providing authoritative guidance on which instruments to include in an asset class. 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. For the purposes of this consultation, we limit our response to this question. We will not at this point address the broader question of non-voting shares issued by companies that also have voting shares listed.

Our view is that voteless companies should not be included in flagship equity indices. We believe that an important function of equity indices is to provide guidance to investors as to whether instruments have the characteristics of equity shares. By default, company law allocates voting rights to shareholders because they have stronger incentives than other stakeholders to monitor and guide the company towards long-term success. Limitations on shareholder rights exist in a number of instances by way of exceptions, e.g. with preference shares, ownership structures and voting impediments in the market. However, a complete lack of public shareholder voting rights goes beyond such limitations in our view. Without any control rights in the form of votes on essential corporate matters, it is questionable whether the instruments can be described for indexing purposes as common equity shares. Index providers should therefore consider voteless companies not as common equity eligible for inclusion, but rather as some form of hybrid.

Norges Bank Investment Management is a part of Norges Bank – The Central Bank of Norway

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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 While recognising the founders' desire for control and flexibility at the early stages of the company's life cycle, we believe that this should be done in a way that offers equity investors some controls over their investments. Market participants have a long-term interest in preserving this balance between issuers and investors. By requiring that index constituents list at least some voting shares, providers will encourage founders to offer control rights to interested equity investors.

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

Yours faithfully,

A blue ink signature of Petter Johnsen.

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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/>)