
NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2018

Document No. 9 (2018–2019)



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TO THE STORTING

The Norges Bank Act governs Norges Bank's activities and the tasks assigned to Norges Bank's Supervisory Council. In accordance with the Act, the Council supervised the Bank's activities in 2018 and ensured that the rules governing the Bank's operations were observed. Each year, the Council carries out four to six supervisory reviews. In 2018, these covered crisis management, the follow-up of changes to the benchmark index set by the Ministry of Finance for the management of the Government Pension Fund Global (GPF), responsible investment, and third-party risks in real estate management.

The Council made a number of recommendations to the Executive Board, and asked questions that were considered and cleared up by the Board. The Council believes that these reviews contributed to improvements in the Bank's systems, procedures and working processes. Recommendations and questions put to the Board are based on internationally recognised governance standards as well as observations made among institutions with which it is natural to compare Norges Bank's duties and operational areas.

The Supervisory Council conducts risk-based supervision of Norges Bank's activities and assesses relevant risk and materiality. The priorities for its supervisory work follow assessments of the probability and consequences of events and developments impacting on the Bank's activities. One key aspect of this supervision is independence of the Bank's risk framework and the Bank's management and control systems. The Council is free to conduct investigations at every level and in every part of Norges Bank's activities. Its supervision does not, however, extend to the Board's exercise of discretionary authority under the Norges Bank Act. In keeping with its independent role, the Supervisory Council reports directly to the Storting – the Norwegian parliament – on its supervision of Norges Bank. These aspects of the Council's tasks and activities are presented well in Report to the Storting No. 7 (2018–2019) "On a new central bank act".

The Supervisory Council approves Norges Bank's budget. For a number of years, the Council has highlighted the importance of high cost awareness in the management of the GPF. The budget for 2019 was approved at the Council's meeting of 13 December 2018 and entails cost reductions. When it comes to investment management, the basis for benchmarking against other funds internationally has been improved. The Council has stressed the importance of this.

The Council has considered the Executive Board's annual report for Norges Bank and adopted the annual financial statements for 2018. The annual report on the management of the GPF in 2018 has also been considered.

In response to the publication in 2017 of the report NOU 2017:13 "New central bank act. The organisation of Norges Bank and the management of the Government Pension Fund Global", the government in 2018 presented Report to the Storting No. 7 (2018–2019). This white paper was considered by the Storting early in 2019, and there was a broad political consensus on the organisation and governance of Norges Bank and the management of the GPF. There now remains the process of enacting the proposed governance model and the necessary updates that this extensive legislative process entails. The current Norges Bank Act was passed in 1985, replacing the previous act of 1892. The Council considers it important that the new law is now passed and brought into force.

The Council approved this report on the supervision of Norges Bank in 2018 at its meeting of 21 March 2019, and the report is hereby presented to the Storting.

Oslo, 5 April 2019

Julie Brodtkorb
Chair of Norges Bank's Supervisory Council

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CHAPTER 1

SUMMARY AND MAIN CONCLUSIONS

EXECUTIVE SUMMARY OF THE REPORT

Norges Bank's position as the central bank of Norway is established in Article 33 of the Constitution. Its activities are regulated by Act No. 28 of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act). The Bank is a separate legal entity owned by the state.

Under the Norges Bank Act, executive and advisory authority at the Bank is vested in the Executive Board. As Norway's central bank and manager of the Government Pension Fund Global (GPF), the Bank holds a position of immense trust. The Executive Board is in charge of the Bank's operations and manages its resources.

Article 75(c) of the Constitution requires the Storting “to supervise the monetary affairs of the Realm”. This role is performed partly by Norges Bank's Supervisory Council, which is appointed by the Storting and consists of 15 full members and two alternates who attend all meetings. The Council's supervisory role is set out in the Norges Bank Act. As the supervisory and control body, the Council has overall responsibility for supervising the Bank's operations and regulatory compliance. The Council also approves the Bank's annual budget and adopts the Bank's annual financial statements.

Under Section 30 of the Act, the Council must “at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, cf. Section 5, fourth paragraph, fifth sentence.” In this document, the Council provides a full report on its supervision of the Bank and the Council's discharge of its responsibilities and duties under the Act. The aforementioned statement and the implementation of the supervision are presented in this report. Priorities, decisions and the organisation of the work are also discussed.

In 2018, the government published Report to the Storting No. 7 (2018–2019) “On a new central bank act”. The Council looks positively on this legislative process. Key issues concerning Norges Bank's mandate and objects, governance, duties and organisation have been resolved. The creation of a committee for monetary policy and financial stability, the continuation of the Supervisory

Council as the ultimate supervisory and control body, and the retention of the management of the GPF as an activity organised under Norges Bank, are among the most important matters now cleared up.

The signals from the government's consideration of the coming legislative changes are of great significance for the Council's future work. The Storting appoints its members, who have experience from all parts of society. Emphasis is given to the Council's competence and capacity to understand the central bank's work. The development of working processes and methods for effective supervision is of great importance.

Given its role, the Supervisory Council monitors the public debate on matters that it is to oversee. The supervision of the Bank requires a good knowledge of its operations and organisation and of its management and control framework. One objective for the Council is to ensure democratic access to, and independent control of, Norges Bank's operations. There is to be a broad consensus in the Storting that the Council conducts effective and efficient supervision of Norges Bank in line with the Norges Bank Act and the Storting's expectations.

The Council wishes there to be transparency and clear dialogue on its work in its communications with the Bank's Executive Board and management, the Ministry of Finance, the Storting, the Office of the Auditor General and other relevant control and supervision bodies.

This report is based on risk assessments and observations during the year. Important bases for the conclusions of the supervisory process are the review of minutes and documents submitted by the Board, and information provided by the Governor at the Council's meetings. The goals for supervision are set out in long-term planning documents and annual supervision plans.

Norges Bank's activities are overseen on an ongoing basis during the year at meetings of the Supervisory Council. Considerable attention is paid to the rules governing the Bank's operations being observed, satisfactory procedures having been established for the management and control of the Bank's operations, and the Executive Board having appropriate procedures and processes for its decisions and

advice. Norges Bank's security management, contingency planning and crisis management with regard to physical and IT security are given high priority and are supervised continuously. Ongoing IT development and change processes in the organisation are monitored closely through management reporting and budget documents.

The Council considers reports from the Office of the Supervisory Council on reviews and evaluations of Norges Bank. Five reports were submitted in 2018 in line with the approved plans. Two reports covering the whole of Norges Bank looked at crisis management and preparedness, including physical security, and the management and control of IT security. Two reviews concerning investment management looked at responsible investment. Norges Bank's compliance with the OECD's Guidelines for Multinational Enterprises was considered, as well as its handling of the exclusion and observation of companies in the GPF. There was also a review of the follow-up of changes to the management mandate. These supervisory reviews did not produce any findings leading to recommendations for the Executive Board to take immediate action.

The Council considered letters from the Board responding to the supervision reports and was satisfied with its responses, which include measures to follow up their conclusions and recommendations. There are no outstanding items to be followed up.

The supervisory reviews in 2018 highlighted a need for clear communication and reporting of decisions, results and risks. The Council notes that the Board largely agrees that reporting in some areas should be further developed. Reporting needs to satisfy all governance and control requirements, while ensuring transparency on Norges Bank's activities. The Council has adopted a supervision plan for 2019 that includes separate supervisory reviews in the areas of internal and external reporting.

The Council has taken note of the Board's statement that experience of the various investment strategies used in the management of the GPF will be an important element in the Board's work on the next strategy plan, which will run from 2020. At the same time, the Council considers it important that the GPF is managed with a long

investment horizon and follows changes to its mandate and investment strategies.

The Council monitors the Board's cost management relative to the expectations expressed by the Storting and the Ministry of Finance, and looks positively on relevant cost comparisons being actively included in the budget process. Changes to operational strategies are also monitored continuously through supervision. In its consideration of the budget for 2019, the Council noted extensive measures to ensure that Norges Bank's IT systems support reliable and cost-effective operations. Major strategic programmes to this end are under way in both operational areas and will continue in 2019. These programmes include the further development and strengthening of IT security.

MAIN CONCLUSIONS

This report constitutes the Supervisory Council's full statement on the supervision of Norges Bank and the Council's other duties during the year.

The Council has reviewed the Executive Board's minutes for 2018. Questions about specific matters arose during this process, and the Governor gave further clarification on the issues raised. The Council received all of the information requested. The Council's supervision uncovered nothing that gave cause for particular remarks under the Norges Bank Act, and the Council did not minute any remarks on the Board's minutes.

The supervision of the Bank's activities and compliance with the rules governing its operations during the year did not uncover any breaches of the Norges Bank Act or of regulations, mandates and other rules for Norges Bank's activities, including the management of the GPF.

The Council is of the opinion that the Executive Board exercised management and control of Norges Bank's operations in 2018 in accordance with the Norges Bank Act, the regulation on risk management and internal control at Norges Bank, and the mandate for the management of the GPF. The Council has taken note of the Board's overall assessment of internal control and risk at

the Bank and considers that the processes and reporting in place satisfy the established requirements.

The Council has adopted the Bank's annual financial statements for 2018 and approved the Bank's budget for 2019. The Council attaches importance to Norges Bank being a public institution and to the Executive Board finding solutions that ensure that the Bank's overall use of resources is reasonable and cost-effective.

When considering the annual financial statements for Norges Bank and the reporting on the management of the GPFG, the Council took note of the Board's discussion of the Bank's activities and performance. The Council believes that the Board's annual report and the Bank's annual financial statements provide good and adequate information on its activities. A transfer of NOK 14.8bn is to be made from Norges Bank's Transfer Fund to the Treasury for 2018.



CHAPTER 2

THE COUNCIL'S OVERALL ASSESSMENT OF THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL

FRAMEWORK FOR RISK MANAGEMENT AND INTERNAL CONTROL

Rules on reporting on risk management and internal control are set out in the Norges Bank Act and the regulation on risk management and internal control at Norges Bank (the Internal Control Regulation).¹ Executive and advisory authority at Norges Bank is vested in the Executive Board.² The Board is in charge of the Bank's operations, manages its resources and is responsible under the Act for its appropriate organisation with satisfactory frameworks, objectives and principles for its operations.

The Council is to submit its assessment of the Executive Board's management and control of the Bank's administration and operations to the Storting at least once a year.

The Internal Control Regulation sets out requirements for governance at the Bank. The Executive Board is to set targets and strategies and ensure that the Bank's operations, including accounting and asset management, are subject to adequate management and control.³ The heads of the operational areas must continuously assess the implementation of internal control and conduct an overall assessment of the adequacy thereof.⁴ The Head of Internal Audit is to submit a report on risk management and internal control at least once a year.⁵ The Governor of Norges Bank must conduct an overall review of relevant risks at least once a year for consideration by the Executive Board. The head of Norges Bank Investment Management (NBIM) may also present his or her own assessment.

The Board is to submit an overall assessment of risk in the Bank's operations to the Supervisory Council at least once a year.⁶ It must assess its own work and competence in relation to the Bank's risk management and internal control at least once a year.⁷ The management mandate for the GPFG issued by the Ministry of Finance also requires

the Bank to evaluate its work and competence related to risk management and internal control.⁸

As a supervisory body, the Supervisory Council attaches considerable importance to the Executive Board's reporting pursuant to these provisions.

THE COUNCIL'S ASSESSMENT OF THE EXECUTIVE BOARD'S REPORTING ON RISK AND INTERNAL CONTROL IN 2018

The Council considered the Executive Board's periodic reporting during the year on governance, compliance and control in central banking and investment management. During this process, the Governor answered questions from the Council on the handling of various items reported. The Council took note of these reports and explanations.

A report on a strategic threat analysis was presented to the Council at one meeting. The document provides a status report for the Board where the Bank's management presents the background to the implementation of security measures.

The Council has considered the Board's letter presenting its assessment of risk and internal control for the Bank's activities in 2018. This assessment is required by the Internal Control Regulation. The assessment shows that the Board considered periodic reports during the year on governance, operational risk management, internal control and compliance, as well as annual reports from the operational areas.

The Board also assessed the quality of Norges Bank's risk management and internal control on the basis of annual reports from Internal Audit, central banking and investment management. An evaluation of the Bank's security status was performed pursuant to the regulation on preventive security work. This is discussed in the reports from the operational areas in connection with assessments of operational risk.

¹ Issued by the Ministry of Finance.

² The Act relating to Norges Bank and the Monetary System etc. (the Norges Bank Act), Section 5.

³ Internal Control Regulation, Section 3 "Responsibilities of the Executive Board".

⁴ Internal Control Regulation, Sections 7 and 8.

⁵ Internal Control Regulation, Section 9.

⁶ Internal Control Regulation, Section 8, third paragraph.

⁷ Internal Control Regulation, Section 3, item 7.

⁸ Management Mandate for the Government Pension Fund Global, Section 4-1.

The Executive Board's conclusion for 2018 was that:

- Internal control at Norges Bank was performed satisfactorily in 2018
- Operational risk exposure in investment management was within the Board's defined tolerance limit during the year
- Operational risk exposure in central banking during the year was acceptable

Internal Audit also submitted an annual report, and the Audit Committee and the Executive Board considered reports on 14 audit projects carried out under the audit plan issued by the Board. Internal Audit's annual report on risk management and internal control presents conclusions and assessments based on completed audit projects and ongoing contact with the operational areas. These reports generally had positive conclusions. The Council nevertheless noted a number of observations that are being followed up by the Executive Board.

When it comes to central banking, there was a special focus on key upgrades to IT systems, the reorganisation of operations and third-party services, and work on reducing IT security risks. Particular attention was also paid to physical security, the risk of unauthorised access to premises, staff safety, and security during transport and deliveries. The Bank carried out training programmes for employees to increase security awareness and competence.

When it comes to investment management, the Executive Board emphasises that changes to the model for allocating capital to asset classes and the investment structure were monitored both before and after mandate amendments such as an increased equity share. The processes for updating benchmark indices have been further developed, with implications for internal decision-making processes and improved opportunities for reporting results and risks. Other risk reduction measures include a new tool to improve information management and work on a new IT platform.

The Board states that no significant breaches of laws or regulations were identified during the course of 2018. Incidents were followed up immediately, and no incidents in 2018 are considered to have had serious actual consequences. The Supervisory Council has taken note of the Executive Board's assessment of risk and internal control at Norges Bank for 2018.

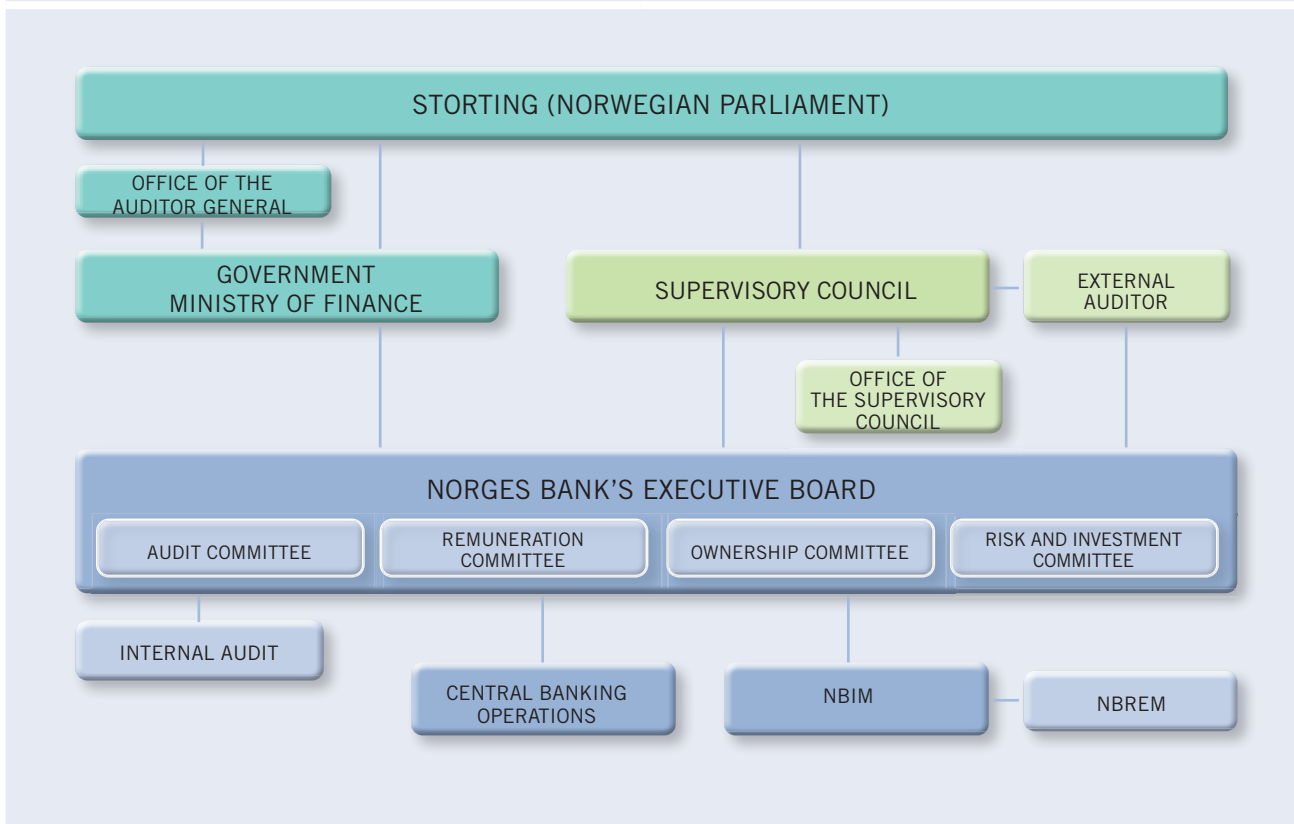
REVIEW OF THE EXECUTIVE BOARD'S MINUTES

The minutes of Executive Board meetings in 2018 were submitted to the Council. Consideration of the minutes is an important element of the Council's supervision and provides an overview of the matters considered by the Board and of its decisions on specific matters. The Governor and Deputy Governors attended the Council's meetings and provided information on the matters considered by the Board and on its minutes. Particular attention was paid to compliance with legislation, mandates and guidelines. During the Council's deliberations, questions were asked about the status of actions and developments in risks over the past year.

The Board's minutes provided the Council with information on the Board's updating of the overall management and control framework. Changes to the Board's rules of procedure were forwarded and explained at the Council's request. Among other things, there was a clarification of the Board's responsibility for setting strategies for Norges Bank's operations.

The Council received the information requested from the Board as part of its supervision. The Governor provided regular assessments of risk and information on planned and implemented measures. It is very important to the Council that it is kept up-to-date and adequately involved.

The Council has taken note of the Board's overall assessment of risk and internal control at Norges Bank for 2018 and is of the opinion that the processes and reporting in place satisfy the requirements of the Norges Bank Act and the Internal Control Regulation.

FIGURE 1 NORGES BANK'S MANAGEMENT AND CONTROL STRUCTURE

CHAPTER 3

ORGANISATION OF THE SUPERVISION OF NORGES BANK

SUPERVISORY MANDATE, FRAMEWORK AND EXECUTION

FRAMEWORK FOR THE SUPERVISORY COUNCIL'S WORK

The historical statutory basis⁹ for the creation of the Supervisory Council as a Storting-appointed management and control body of Norges Bank is Article 75(c) of the Constitution: *“It devolves upon the Storting to supervise the monetary affairs of the Realm.”*

The members of the Council have been appointed by the Storting to carry out the supervision and control of Norges Bank. They report directly to the Storting on this work. The Council's role has evolved over time. Under the current Norges Bank Act, the Council is one of the Bank's two governing bodies. The organisation of the Bank's supervision and the statutory basis for the Council's activities are currently set out in Sections 5, 7, 9, 29, 30 and 30a of the Norges Bank Act of 1985 as subsequently amended.

The management and control structure for Norges Bank is outlined in Figure 1.

The Council's principal duties are as follows:

- Supervising the Executive Board's management and control of Norges Bank, including supervising the Bank's activities and ensuring that the rules governing the Bank's operations are observed
- Approving the budget proposed by the Board
- Adopting the annual financial statements prepared by the Board
- Appointing the external auditor and approving the auditor's plans and fees
- Issuing a statement on the minutes of Board meetings, the supervision of the Bank and matters submitted to the Council by the Board
- Laying down rules for loans to employees
- Supervising companies that are partly or wholly owned by the Bank

The Council may, on the recommendation of the Executive Board, decide that the production of banknotes and coins or other commercial activities that fall within the scope of the Norges Bank Act are to be performed by companies partly or wholly owned by the Bank. The

Board represents the Bank as shareholder in such companies, and the Council conducts supervision.¹⁰

At least once a year, the Council is to present to the Storting a statement on the minutes of Executive Board meetings and its supervision of the Bank in accordance with the fourth paragraph of Section 30 and the fifth paragraph of Section 5 of the Norges Bank Act. This is the basis for this report, which *“shall, as a minimum requirement, comprise the following:*

1. *an account of how the supervision of the Bank has been organised,*
2. *an account of supervisory activities conducted and the Supervisory Council's priorities for its activities ahead,*
3. *an account of the Supervisory Council's supervision of the Bank's investment management activities,*
4. *the Supervisory Council's assessment of the Executive Board's management and control of the Bank's administration and operations, cf. Section 5, third paragraph, second sentence,*
5. *an account of the Supervisory Council's work in connection with its approval of the Bank's budget and adoption of the accounts, cf. Section 5, fourth paragraph, second sentence,*
6. *any particular remarks arising from supervisory activities.”*

The main purpose of this supervision is set out in the fourth paragraph of Section 5 of the Act and covers the whole of the Bank's operations: *“The Supervisory Council shall supervise the Bank's activities and ensure that the rules governing the Bank's operations are observed. The Supervisory Council shall in this respect supervise the Executive Board to ensure that the Executive Board's management and control of the Bank's administration and operations are satisfactory and that appropriate procedures have been established so that the Bank's activities are conducted in accordance with legislation, agreements, decisions and other regulatory frameworks.”*

Pursuant to the Norges Bank Act, the Council has laid down rules for its own activities, which include rules of procedure for the Council itself, a mandate for its Permanent Committee, standing instructions for the Office of the Supervisory Council, and a job description for the Office's Director. The Council's rules of procedure

⁹ From the Constitution of 1814 and the legislation on the establishment of Norges Bank in 1816.

¹⁰ Cf. Norges Bank Act, Section 5, sixth paragraph.

and the mandate for the Permanent Committee were last reviewed and adjusted in 2016. Updates to the Office's standing instructions were approved in 2017.

The Council is free to conduct investigations at every level and in every part of Norges Bank's activities. Its supervision is based on its own assessment of relevant risk and materiality. This includes monitoring whether the Bank's operations are conducted in accordance with applicable laws and rules, as well as financial and reputational risks. Independent supervision makes an important contribution to ensuring legitimacy, transparency and public confidence in both central banking and investment management activities.

The Council obtained a legal opinion in 2017 on the application of the rules on personal trading and inside information.¹¹ The members of the Council are not covered by Norges Bank's internal rules on personal trading, but the prohibition on insider dealing is established in law and applies to all those in possession of information that can be defined as inside information, which includes members of the Council. This may particularly be the case when considering matters concerning the Executive Board's decisions on excluding companies in the management of the GPFG. The Supervisory Council has advised all members to take due care in order to ensure that they do not contravene the provisions of the Securities Trading Act.

As a framework for Norges Bank's operations, the Supervisory Council has issued budget rules for Norges Bank, as discussed later in this report, and rules on loans to employees of Norges Bank.¹² The Governor manages the loan scheme under powers delegated by the Council. The Council has also issued guidelines for the Council's supervision of companies owned by Norges Bank in connection with the GPFG's real estate investments.

The Office of the Auditor General and Norges Bank's Supervisory Council have signed an agreement on the division of duties, supervisory responsibilities, etc., entitled "Guidelines for the exchange of information and co-ordination of auditing and supervision between the Office of the Auditor General and Norges Bank's

Supervisory Council in relation to the Government Pension Fund Global".¹³

The Executive Board is responsible for running the Bank and for setting the Bank's strategy, targets and risk tolerance. It is important to draw a clear line between the responsibilities of the Board and the role of the Council. The Council is not to be held accountable for the choices made by the Board, but is to ensure that the Board has established sound processes. One key objective of the supervisory process is to ensure that resolutions passed by the Council are considered and assessed by the Board and by the Bank.

The Council's supervision does not extend to the Board's exercise of discretionary authority under the Norges Bank Act.¹⁴ This means that the Council does not consider or comment on the Board's interest rate decisions, consultation responses or technical advice to political authorities. The supervision of the Bank's operations will, however, include processes and documents at Norges Bank that form the basis for the Board's advice and exercise of discretionary authority. The Council is informed about the Bank's work in these areas.

SUPERVISION STRATEGY

The supervision of the Bank requires a broad knowledge of its operations and organisation and of its management and control framework. The goals for supervision are set out in long-term planning documents, action plans and annual supervision plans. One objective for the Council is to ensure democratic access to, and independent control of, Norges Bank's operations. There is to be a broad consensus in the Storting that the Council conducts effective and efficient supervision of Norges Bank in line with the Norges Bank Act and the Storting's expectations. The Council is to help ensure public confidence in the Bank's discharge of its central banking duties and management of the GPFG. Good supervision in line with relevant standards and good international practice contributes to positive developments in management and control at the Bank.

¹¹ Securities Trading Act, Sections 3 and 8.

¹² Adopted on 29 May 2013. The final sentence of Section 23 of the Norges Bank Act permits the Bank to issue housing loans and small personal loans to its employees to a limited extent.

¹³ Signed on 1 December 2010. Norges Bank is covered by a separate audit arrangement, cf. Section 30a of the Norges Bank Act. The Office of the Auditor General does not oversee Norges Bank, but monitors the finance minister's exercise of authority over the Bank, cf. Norges Bank Act, Section 2, fourth paragraph, final sentence.

¹⁴ Cf. Section 5, fourth paragraph. An investigation carried out for the Supervisory Council in 2013 clarified supervisory responsibilities concerning the Executive Board's discretionary authority.

One aim for the execution of the supervision of the Bank and the management of the GPFG is for the Council and the resources it can draw on to have considerable expertise and commitment to this work. A common frame of reference and regular discussions of the Council's role and responsibilities are important. Emphasis is given to integrity and objectivity in working processes and reporting. This also includes relations between the Office of the Supervisory Council, the external auditor and external advisers. Importance is attached to continuous skills development.

The Council wishes there to be transparency and clear dialogue on its work in its communications with the Bank's Executive Board and management, other relevant audit, control and supervision bodies, the Ministry of Finance and the Storting. Meetings, reports and the publication of minutes and other information contribute to this.

When it comes to the Office of the Supervisory Council, emphasis is given to a strong professional environment characterised by Norges Bank's values: team spirit, integrity, innovation and excellence. Skills development is important in order to understand and assess important trends, and for retaining skilled staff. Development opportunities can be derived from strong professional networks, access to specialist resources and regular contact with the Bank's management and operational areas.

EXECUTION OF SUPERVISORY WORK

Supervision is carried out at a general level by considering matters tabled at meetings of the Supervisory Council. Meetings are called in line with an agreed schedule and also where there is a special need or where requested by five or more of its members or by the Executive Board.¹⁵

The Bank's executive management are required to attend these meetings. This gives the Council the opportunity to raise questions and issues requiring further explanation. The explanations given at the meetings are minuted and may be subject to further supervisory work.

The Director of the Office of the Supervisory Council attends meetings of the Executive Board and the Audit Committee while some matters are discussed. This is an important source of information on the Bank's operations in areas relevant to supervisory work. The Office handles

the Council's relations and contact with the Board and the Bank's executive management. Meetings are held regularly with the Bank's executive management, the operational areas, control and compliance units, risk management units, Internal Audit and the external auditor. Internal Audit's reporting to the Audit Committee and the Executive Board is reviewed.

This work gives the Office in-depth access to, and knowledge of, the Bank's activities. Supervision involves observing, questioning, discussing, evaluating and reporting. This is essential so that the Council can be kept constantly updated on developments material to its supervision. In the ongoing supervisory process, attention is paid to the Board's follow-up of compliance, risk management, governance and expenditure. Observations from this ongoing supervision may be important for planned supervisory reviews.

In connection with the Council's meetings, the Office examines matters submitted by the Board and liaises with the Board's secretariat. Supplementary information and technical assessments are provided in separate memos or checklists that provide additional depth and can provide input for the Council's deliberations.

Figure 2 presents the Supervisory Council's working processes through to the completion of Document No. 9 to the Storting.

Supervision and control tasks are to be carried out in accordance with relevant technical standards and the instructions and guidelines issued by the Council. There is no clear internationally recognised standard for the supervision of central banks, but the Office monitors developments at other central banks, other comparable institutions and relevant standard setters such as the BIS¹⁶, OECD¹⁷ and ECB. The supervisory methodology may also be based on practice at relevant institutions. Within Norway, related areas include the financial supervisory authority Finanstilsynet's methodology and reporting on the supervision of banks and other financial institutions, and the Office of the Auditor General's methodology for auditing public bodies. International standards for internal

¹⁵ Cf. *Norges Bank Act*, Section 7.

¹⁶ *Bank for International Settlements, including the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision (Core Principles)*, 2012.

¹⁷ *The Organisation for Economic Co-operation and Development*.

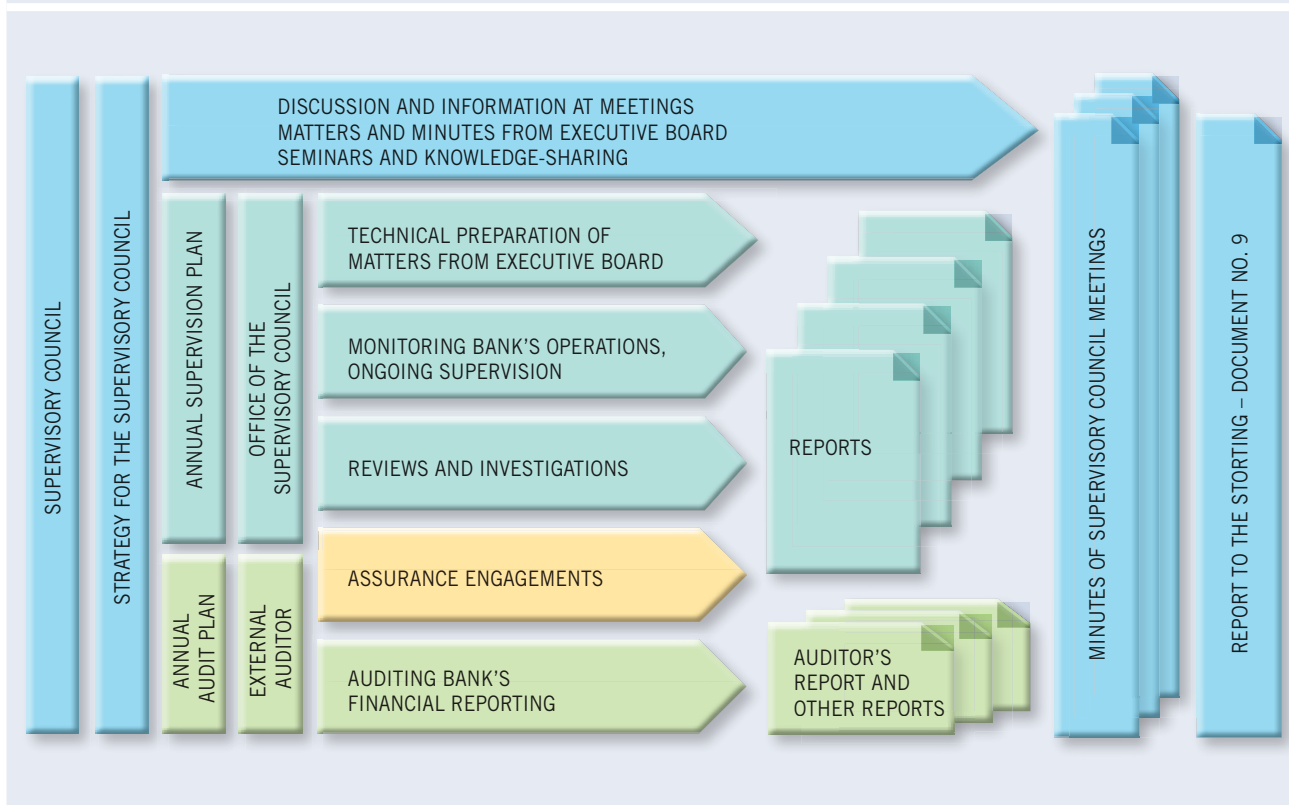
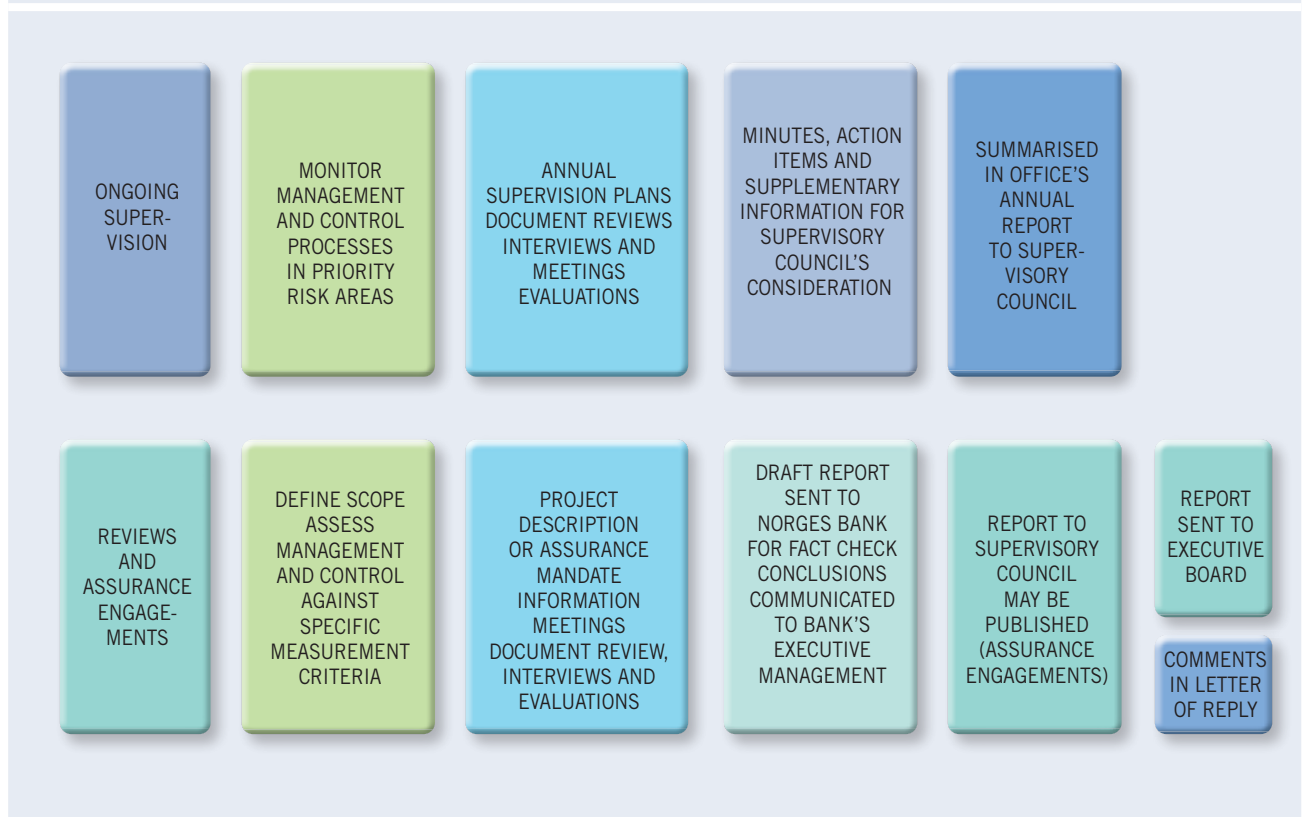
FIGURE 2 THE SUPERVISORY COUNCIL'S WORKING PROCESS

FIGURE 3 THE SUPERVISION AND REPORTING PROCESS

auditing¹⁸ and external auditing¹⁹ also provide guidance for the methodological approach to supervision.

Special supervisory reviews and investigations are performed in selected areas, resulting in separate reports considered by the Supervisory Council. In these reviews, assessment criteria are defined on the basis of overall goals and risks and the formal regulatory requirements for Norges Bank. The Bank's processes for managing various risks are assessed against standards or recognised practices at peer organisations. The COSO ERM risk management framework is applied. Information on the requirements of internal rules and the Executive Board's organisation of this work is obtained through meetings and the review of documents. The observations made in these reports are differences noted between the Bank's practices and the benchmark chosen for the review. Risks are analysed and discussed, and conclusions are drawn about whether established practice at the Bank is considered satisfactory.

The Council considers reports from supervisory reviews, assurance engagements and investigations. It is important for the Council to clarify key authorities and responsibilities through its supervision. Reports from supervisory reviews and assurance statements are forwarded to the Board, and the Council asks the Board to respond to comments, questions and recommendations concerning the conclusions. It is important for the conclusions of the supervisory reviews to be clear. The response from the Board is followed up.

The Board is asked for its views, and it is particularly important that the prioritisation of risks and control measures is made clear. The Council expects risks to be discussed and any weaknesses or failures to be followed up. The discussions between the two governing bodies include space for asking questions about processes and solutions.

Figure 3 shows the processes for implementing ongoing supervision and supervisory reviews on the basis of the approved supervision plan.

SUPERVISORY INSTRUMENTS – REPORTING AND TRANSPARENCY

The Supervisory Council's report to the Storting – Document No. 9 – is designed to paint a complete picture of the Council's duties, assessments of Norges Bank's control structure, and supervisory activities carried out. In these reports, the Council reports on its remarks during the year, the Executive Board's follow-up of comments from supervision, and any unclarified matters subject to further follow-up. It is therefore the Storting that takes a final position on matters and issues where there is clear disagreement between Norges Bank's Executive Board and the Supervisory Council as overseer.

The Council has noted considerable public interest in Norges Bank's operations and supervision. Transparency about the Council's work is achieved within the constraints and limits laid down in the Norges Bank Act and other relevant rules on the Bank's operations.

The approved minutes of the Council's meetings are published on its website²⁰ in accordance with the provisions of the Freedom of Information Act. The minutes present resolutions, any questions and comments on risks, other remarks and the Governor's statements. Supporting documentation relating to matters considered at Council meetings is exempt from public access under Section 14 of the Freedom of Information Act on internal documents, unless otherwise indicated in the document itself.

Assurance statements submitted under the international standard for assurance engagements ISAE 3000 are submitted to the Ministry of Finance and made publicly available.

The Council's members are covered by the duty of confidentiality set out in Section 12 of the Norges Bank Act. Under the Council's rules of procedure, it is the chair – or the member nominated by the chair – who makes public statements on behalf of the Council.

The Council also publishes consultation responses and letters, as discussed later in this report.

¹⁸ *The Institute of Internal Auditors (IIA) Code of Ethics and International Standards for the Professional Practice of Internal Auditing.*

¹⁹ *The most relevant standards are the International Standard on Assurance Engagements (ISAE) 3000 series.*

²⁰ See www.norges-bank.no/representantskapet or www.representantskapet.no.

CHAPTER 4

CHANGES TO THE NORGES BANK ACT

THE COUNCIL'S FOLLOW-UP OF NOU 2017:13

In 2017, the Supervisory Council submitted its consultation response to report NOU 2017:13 on a new central bank act and the organisation of Norges Bank.

This response is discussed in Chapter 9 of last year's report: Document No. 9 (2017–2018).

REPORT TO THE STORTING NO. 7 (2018–2019) “ON A NEW CENTRAL BANK ACT”.

Report to the Storting No. 7 (2018–2019) from the Ministry of Finance was approved by the Cabinet on 19 October 2018 and forwarded to the Storting.

The background to this white paper was a desire to anchor important choices in the Storting before presenting a final bill. In the wake of this, the Ministry asked the Supervisory Council for comments on the governance model for the Bank and the management of the GPFG for which the government was seeking support from the Storting in the white paper.²¹

The Council's response was sent to the Ministry on 7 January 2019 with a copy to the Office of the Auditor General. It is attached to this report as Appendix 2 and has also been published on the Council's website.²²

The Council considers it a sound procedure for the Ministry to ask in writing for feedback on the proposed governance model and key supervision-related issues in the new legislation from the body charged with supervision under the current law.

The Council also took the opportunity to issue a statement on the governing bodies' duties and responsibilities. The legislative changes to the governance model are discussed in the light of the potential implications for the supervisory role.

The Storting considered Report to the Storting No. 7 (2018–2019) on 19 February 2019, cf. Recommendation 165S (2018–2019). The Council is closely monitoring the

legislative process and the Storting's deliberations, and is prepared to develop its control and supervisory responsibilities with regard to Norges Bank in line with the requirements of new legislation. It has been noted that considerable emphasis is given to active and risk-based supervision, and that continuous skills development should be a priority. Further comments can be found in this report in Chapter 3 on the organisation of supervision and Chapter 10 on the Council's priorities.

ON ARTICLE 75(c) OF THE CONSTITUTION

In connection with the consultation response in 2017, the Council commissioned an opinion from Eivind Smith, professor of public law at the University of Oslo, on the significance of Article 75(c) of the Norwegian Constitution: *“It devolves upon the Storting to supervise the monetary affairs of the Realm.”*²³

The import of this article is discussed in an opinion dated 22 July 2018 prepared by the Ministry of Justice and Public Security's Legislation Department at the request of the Ministry of Finance. One topic discussed is the question of whether it would be unconstitutional for the system with a Storting-appointed supervisory body to be abolished. The Legislation Department stresses that its opinion concerns only the constitutional framework and not which arrangements are to be preferred within this framework.

It writes: *“Given the historical background to Article 75(c) and its limitations as discussed above, it is, in our opinion, sufficient to say that the purpose of the article is to ensure particular democratic control of monetary policy. This control spans both the objective of monetary policy and the instruments used to achieve those aims. [...] The Storting cannot through legislation forswear the right to exercise this constitutional authority.”*

Considering whether the GPFG might be covered by the concept of “the monetary affairs of the Realm”, the opinion concludes: *“On balance, the management of the GPFG is not, as the fund's objectives are currently stated, something that would be covered by the concept of ‘the monetary affairs*

²¹ Letter from the Ministry of Finance of 5 December 2018.

²² https://www.norges-bank.no/contentassets/2de5d5189c67476f9d59220f784acd9/oppfolging_meld7_2018-19.pdf.

²³ Smith's report of 25 September 2017 is available on the Council's website: https://www.norges-bank.no/contentassets/2de5d5189c67476f9d59220f784acd9/notat_smith.pdf.

of the Realm'. In our opinion, this conclusion applies regardless of the degree to which the management of the fund is linked to Norges Bank's organisation."

In 2018, the Council asked professor Smith for his view of this opinion from the Legislation Department in the light of his previous examination of Article 75(c).²⁴

Summing up, he writes:

"It is important to remember that Article 75(c), regardless of interpretation, can do no more than provide certain limits for the organisation of Norges Bank and its supervision under a new act. Within these limits, other types of argument should prevail. Such arguments might, for example, mean that a system related to the current one should be retained regardless of what one might think about the content of the Constitution in this area.

"In this context, I would emphasise in particular the importance of a more than 200-year-old tradition as an argument for continuing to have a Storting-appointed Supervisory Council. In a different age, however, such a tradition should only be assigned considerable or overriding weight to the extent that it helps preserve and enhance a central role for our supreme popularly elected body in the democratic control of monetary policy."

The Council has noted that the purpose of Article 75(c) is to ensure particular democratic control of monetary policy, and that the Storting as a whole must have a sufficient basis for adequate supervision regardless of the organisation of Norges Bank and the management of the GPFG.

²⁴ Smith's report of 31 August 2018 is available on the Council's website: https://www.norges-bank.no/contentassets/2de5d5189c67476f9d59220f784acdf9/smith_grl75c.pdf

CHAPTER 5

SUPERVISION OF OVERALL MANAGEMENT AND CONTROL AT NORGES BANK IN 2018

THE MANAGEMENT AND ORGANISATION OF THE BANK'S OPERATIONS

THE ORGANISATION OF THE EXECUTIVE BOARD ITSELF

The Executive Board is responsible for all parts of Norges Bank's operations. It has eight full members and two alternates appointed by the King in Council.²⁵ The Governor, who chairs the Executive Board, and the two Deputy Governors, who are its first and second deputy chairs, are appointed to full-time positions for a period of six years.²⁶ The five external members and two alternates are appointed for a term of four years. The alternates attend and have the right to speak at all meetings. Two employee-elected members and the two alternates participate in the consideration of administrative matters.

Remuneration and pensions for the Governor and Deputy Governors, and fees for the external members and alternates, are set by the King.²⁷

The Ministry of Finance has issued a regulation on conflicts of interest for Norges Bank's Executive Board that covers the Governor, the Deputy Governors and the other full members and alternates.²⁸ The Executive Board has adopted rules of procedure for its work that are evaluated annually.²⁹ In 2018, textual adjustments were made concerning the Board's responsibility for the management of the GPFG. The Board has also issued ethical principles both for its external members and for employees of Norges Bank.³⁰ New rules on personal trading have been introduced that are aligned with the Board's ethical principles and changes to the Securities Trading Act.

Decisions of a strategic nature and on matters of principle are to be taken by the Board. The Board may give special authority to the Governor or others to take decisions in

specific areas.³¹ Delegated authority is overseen through regular reporting.

The Governor has a general authority in the Executive Board's rules of procedure to take decisions that fall to the Board where an immediate decision is needed and there is neither time nor opportunity to call a meeting of the Board to reach a decision. This authority may not be delegated further. Such decisions are to be presented to the Board as soon as possible.

Otherwise, all matters are dealt with at meetings of the Board. The minutes of these meetings are made publicly available. The minutes are also to be submitted to the Supervisory Council once approved by the Board.³² The Council pays particular attention to the minutes in its supervision. The minutes are also submitted to the Ministry of Finance and the Office of the Auditor General. The Council keeps abreast of any new or amended guidelines through its consideration of the Board's minutes, matters submitted and briefings given at its meetings.

The Board has established and mandated four preparatory and advisory subcommittees. In 2018, the Board conducted a review of these mandates and made changes that include joint meetings of the committees to meet the need for co-ordination of their work. The subcommittees' activities do not alter the responsibilities of the Executive Board or its individual members. Minutes of the subcommittees' proceedings are considered by the Board.

The roles of the four subcommittees are as follows:

- The *Audit Committee's* duties centre on monitoring, oversight and control of financial reporting, operational risk, compliance and systems for risk management and internal control. The committee was established in accordance with the Internal Control Regulation.³³

²⁵ Norges Bank Act, Sections 6 and 9.

²⁶ Norges Bank Act, Section 6, second paragraph, second sentence.

²⁷ Norges Bank Act, Section 6, final paragraph.

²⁸ The regulation covers the limitation of activities and interests, personal trading, insider rules and the duty of disclosure.

²⁹ Last amended on 20 June 2018.

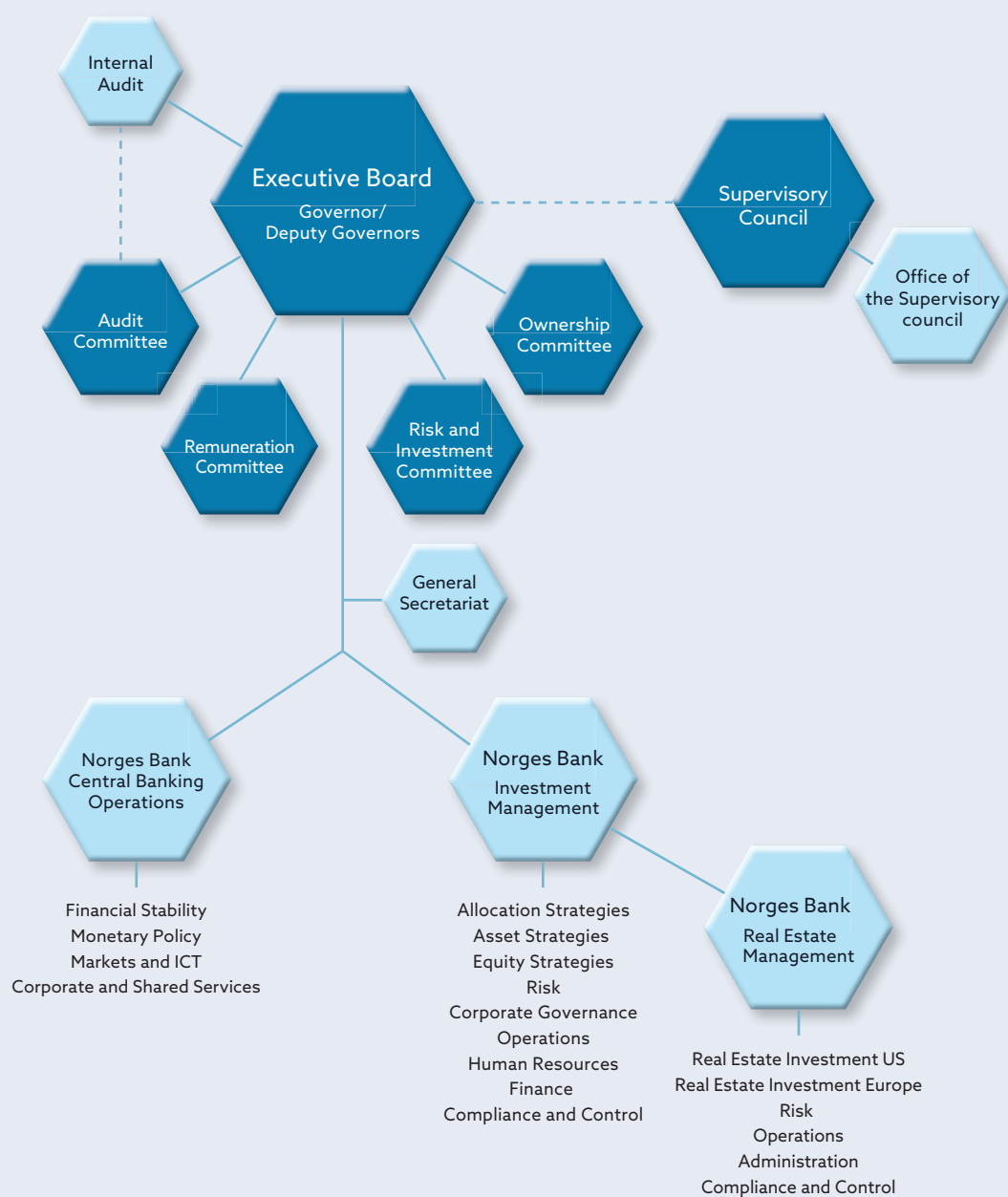
³⁰ The Governor, Deputy Governors and employee representatives are covered by the Ethical Principles for Employees of Norges Bank, issued by the Executive Board.

³¹ Norges Bank Act, Section 10.

³² Cf. Norges Bank Act, Section 30: "The Supervisory Council shall at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, cf. Section 5, fourth paragraph, fifth sentence."

³³ Cf. Internal Control Regulation, Section 10.

FIGURE 4 NORGES BANK ORGANISATION CHART



- The *Risk and Investment Committee* is to help strengthen and streamline the Board's work on investment strategy, exposures, evaluation of performance,
- setting and use of risk limits, and particularly large and important investment decisions.
- The *Remuneration Committee* is to contribute to thorough and independent consideration of matters concerning the Bank's remuneration arrangements.³⁴
- The *Ownership Committee* is to prepare the Board's consideration of matters concerning responsible investment and decisions on the exclusion and observation of companies from the GPFG's investment universe.

Each committee has three members chosen from among the Executive Board's members and alternates for a term of two years. The Internal Control Regulation requires the chair and members of the Audit Committee to be elected by and from the Executive Board's external members. The Remuneration Committee is chaired by an external member of the Executive Board. The Second Deputy Governor chairs the Risk and Investment Committee and the Ownership Committee.

A Central Executive Managers Forum (SLF) has been set up, chaired by the Governor and also comprising both Deputy Governors, the CEO and Deputy CEO of Norges Bank Investment Management (NBIM) and the CEO of Norges Bank Real Estate Management (NBREM). The Executive Director of the General Secretariat, General Counsel and Communications Director normally also attend its meetings. The SLF is an advisory forum for the Governor, which discusses matters in areas where there is a need for the Governor to take decisions or issue guidance that affect both of the Bank's operational areas. The forum is also to discuss matters of importance for the entire Bank that are to be considered by the Executive Board, including issuing or amending general principles from the Executive Board for the Bank's overall operations.

The Executive Director of the General Secretariat reports to the Governor. The department is to serve as a secretariat, provide administrative support for management and for the Executive Board and its subcommittees, and handle contact with Internal Audit and the Office of the Supervisory Council. The General Secretariat is to ensure consistency between overlapping policy documents approved by the Executive Board and the Governor. Its work also includes monitoring the legal framework for the central bank and the Board's external communications.

In the Supervisory Council's opinion, the Executive Board has established a sound governance structure at the highest level of Norges Bank.

NORGES BANK'S OPERATIONAL AREAS

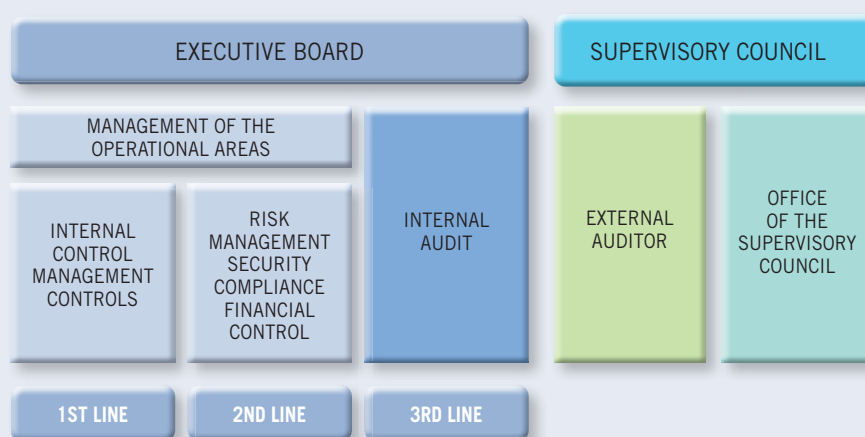
Under the Norges Bank Act, the Executive Board is in charge of the Bank's operations and manages its resources. The Board establishes frameworks and principles and has the flexibility to organise the Bank's operations to reflect its responsibilities and objectives. Under the current Act, the Bank has considerable independence from government authorities in areas where the Executive Board has decision-making powers, in particular the use of monetary policy instruments and work on financial stability.

Norges Bank is a single legal entity. Its duties are fulfilled by two operational areas: Norges Bank Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM). These operational areas are headquartered and share offices in Oslo. The Bank has also opened offices abroad as part of its investment management activities. See the organisation chart in Figure 4.

NBCBO and NBIM have different roles, and the chosen organisation needs to be seen in this light. In some areas, there is a need for common rules. The Executive Board (in the form of principles) or the Governor (in the form of guidelines) issue rules covering the whole of the Bank in addition to various rules and instructions for the individual operational areas. The Ministry of Finance's mandate for the GPFG specifies that various limits for investment management are to be set by the Executive Board.

The Governor is in charge of Norges Bank's administration and has overall responsibility for the implementation of

³⁴ See, for example, the *Management Mandate for the Government Pension Fund Global*, Section 5-2 "Guidelines and limits for a remuneration system".

FIGURE 5 CONTROL MODEL AT NORGES BANK (LINES OF DEFENCE)

decisions. It is an established practice that the Executive Board appoints the Executive Directors in charge of the four departments within NBCBO, the Head of Internal Audit, the Communications Director and the General Counsel, as well as the CEO of NBIM and the CEO of NBREM. Overall responsibility for the management of the GPFG has been delegated to the CEO of NBIM, who is also responsible for submitting matters in his area.

The Governor issues guidelines for central banking, and the CEO of NBIM issues guidelines for investment management, including the follow-up of external regulatory requirements, etc.

The Council's supervision of central banking and investment management in 2018 is presented in Chapters 4 and 5 respectively of this report.

THE EXECUTIVE BOARD'S OVERALL MANAGEMENT OF THE BANK

Central banking and the management of the GPFG are conducted on the basis of established strategies, targets and management systems. The Supervisory Council monitored developments in the organisation of this work during the course of 2018 through various reports from the Executive Board and oral information at meetings. The Council ensures that the Board exercises good management and control at a general, overall level as well as within each of the operational areas, in accordance with applicable rules.

The Executive Board produces general strategy plans for a three-year period describing challenges and priorities. The Board also considers the strategies for the operational areas. The current strategy period runs from 2017 to 2019. Together with statutory requirements and internal guidelines, these strategies provide guidance for the development of the Bank and for how the task of managing the GPFG is to be fulfilled.³⁵

The Executive Board reports to the Council on performance against targets and implementation of action plans in the strategies through periodic management reports and budget updates.

The Executive Board has approved principles for risk management at Norges Bank based on the Ministry of Finance's Internal Control Regulation. The principles are to provide guidance for a systematic and holistic approach. The Board sets a risk profile and risk limits both for the Bank as a whole and for each individual operational area. Risk management is to be an integral part of operational management that helps strike a balance between goals, risk and control measures. The Governor and the CEO of NBIM are to ensure adequate risk management and internal control on the basis of an assessment of relevant risks in accordance with guidelines issued by the Executive Board. The operational areas report regularly on operational risk management and compliance. Critical incidents are to be reported immediately.

Norges Bank's control model is illustrated in Figure 5.

Roles and responsibilities in the risk management system are organised along three "lines of defence", and limits and guidelines for risk management and control have been issued at each level. The Bank's risk management and control model conforms to accepted international practice.³⁶

The first line of defence is operational management, which is responsible for risk management and control activities being carried out. Risk assessment and compliance are to be an integral part of business processes and also cover the management of outsourced services.

The second line of defence comprises central units for risk management and compliance, security and financial control. These help support risk management in the departments at operational level with reporting tools and by assessing the quality of control structures. The compliance units³⁷ co-ordinate reporting to management and the Executive Board. The necessary reporting lines straight to the Bank's senior management have been established.

The third line of defence in this model is the Internal Audit unit, which has been established by the Executive

³⁵ Cf. *Management Mandate for the Government Pension Fund Global*, Section 1-7.

³⁶ *The Three Lines of Defence Model*, <https://www.iaa.org.uk/resources/audit-committees/governance-of-risk-three-lines-of-defence/>.

³⁷ *The Governance, Risk and Compliance (GRC) unit at NBCBO and the Compliance units at NBIM and NBREM.*

Board in accordance with the requirements of the Norges Bank Act and the Internal Control Regulation. Its role is to support the Board's oversight by providing assessments and recommendations on the Bank's governance, risk management and internal control. Internal Audit bases its assessments and recommendations on observations from audit projects performed and on knowledge obtained by monitoring the Bank's operations.

Its work is performed on the basis of instructions from the Executive Board and international standards for internal auditing practices.³⁸ The Board's instructions require Internal Audit's objectivity in this work to comply with these standards, which also require the unit to undergo an external evaluation at least every five years. Such an evaluation was performed in 2018 against good practice, and a number of recommendations were made to strengthen the unit's work. The Board has decided on a number of adjustments to its instructions for the unit, partly to clarify its role in relation to other control units in the operational areas.

The Head of Internal Audit is appointed by the Executive Board and reports administratively to the Governor. The Board approves the unit's work plans, and the unit reports to the Board on its assessments and conclusions from its work. The Audit Committee considers reports and matters submitted by Internal Audit. Under the Internal Control Regulation, the Head of Internal Audit is entitled to attend meetings of the Executive Board and may also attend meetings of the Board's subcommittees. Internal Audit is to provide necessary support for the Audit Committee and serve as its secretariat.

The chair of the Audit Committee and the Head of Internal Audit have presented the Committee's follow-up of Internal Audit's work and annual audit plans to the Supervisory Council. The Council is kept abreast of Internal Audit's reporting through the Executive Board's minutes.

In the Council's opinion, the control model established at the Bank provides for adequate internal control with a division of duties and adequate independence between decision-making, controlling and reporting functions.

³⁸ Standards issued by the Institute of Internal Auditors (IIA).

ONGOING SUPERVISION

NEW GENERAL GUIDELINES

New data protection rules entered into force on 20 July 2018.³⁹ These impose new obligations on Norges Bank and confer rights to individuals on whom the Bank holds information. The data protection rules and the internal systems to ensure compliance are extensive. Training and information activities have been held for employees on the rules and requirements, and a data protection officer has been appointed and registered with the Norwegian Data Protection Authority.

A new Money Laundering Act and regulation on combating money laundering and terror financing entered into force on 15 October 2018.⁴⁰ These attach importance to a risk-based approach to work to anti-money laundering and set out requirements for the documentation of risk assessments, procedures and controls. NBCBO and NBIM have assessed their operations and internal rules against these requirements. The Bank's conclusion is that the rules apply to the exchange of withdrawn banknotes and coins and to compensation for lost, burnt and damaged banknotes, and in extraordinary cases also to the settlement of payments in NBO and deposits to discharge debts under the Deposit Act.

The Supervisory Council is to supervise the Bank's compliance with the new Money Laundering Act.⁴¹ Risk assessments and the methodological approach will be developed in more detail as part of a supervisory review in 2019.

MANAGEMENT OF SECURITY

Security management, contingency planning and crisis management are given high priority. Norges Bank is covered by the Security Act and the Document Security Instructions. The Executive Board, the Governor and the CEO of NBIM have issued supplementary internal guidelines.

³⁹ Cf. the Personal Data Act, especially Chapter 3.

⁴⁰ The act applies to Norges Bank under its Section 4(1)(d).

⁴¹ Based on Section 43(2) of that act and the Council's supervisory duties under the Norges Bank Act.

The Council agrees with the Board that it is very important for the Bank's critical assets to be protected. Employee safety and IT security are also paid great attention. Information on matters in these areas is often requested at the Council's meetings.

The Executive Board has issued principles for security, contingency planning and crisis management. A Bank-wide contingency plan with a description of the crisis management organisation at the Bank has been produced. The Governor has issued guidelines on physical security to flesh out the Board's principles. Regular exercises are held, and all employees underwent a security awareness training programme in 2018 which will continue in 2019.

The Bank's Security Unit liaises and exchanges information with national security services, the police and other relevant players both nationally and internationally. An international network of central banks has been set up. The National Security Authority (NSM) oversees preventive security work at entities covered by the Security Act, which include Norges Bank. The Bank has paid particular attention to compliance with the new National Security Act entering into force on 1 January 2019.

The central bank approaches security systematically. The point of departure is current threats. Extensive plans, instructions and agreements are in place to prevent and manage the most extreme situations. Norges Bank as a critical institution is best placed to protect its assets.

The Executive Board is updated regularly by the operational areas on the management of security risks. The Bank's Security Unit prepares an annual strategic analysis of the most relevant threats faced. Changes to processes and control procedures are made as necessary.

The Supervisory Council considers it important for risk analyses and threat assessments to be realistic. Rules for this work and reporting on compliance are followed closely. The Bank's priorities for enhancing security and contingency planning are discussed regularly at the Council's meetings. The Council followed reporting on security management in 2018 and was given a presentation on the strategic threat analysis with the most relevant threats that could affect the Bank and its staff. Information

was also provided on security measures and the work of the Security Unit. The Council discussed matters such as employee safety, physical security at the Bank's premises, IT security, and security risks at suppliers. Attention will continue to be paid to these issues in future supervisory work.

Resources for security measures are allocated through annual budgets. In exceptional circumstances, the Board can cover the cost of safeguarding lives, health and other important assets without any special allocation of funds, but a report must then be submitted to the Council. No such cases were reported in 2018.

The management and control of contingency planning and crisis management (non-financial crises) and work on IT security were examined in two supervisory reviews in 2018, which are reported on separately below.

MANAGEMENT AND CONTROL OF IT DEVELOPMENT AND IT SECURITY

In its supervision, the Supervisory Council attaches importance to the Executive Board working systematically on organising and following up changes to IT systems and new IT products and services.

IT is an evolving field, and new vulnerabilities come to light. The Bank is making substantial changes to introduce and upgrade its own systems. An important part of this work is for the operational areas to insource tasks and solutions previously outsourced. Both operational areas report substantial risks associated with this change process.

During the year, the Council considered reports and information provided to the Executive Board by the operational areas on the management of work on developing IT and IT security. The Council requested supplementary information on strategy, governance, organisation and follow-up.

The Council believes that a clear overall governance framework has been established in this area. It is considered positive that both operational areas apply the same framework and standards for the management of IT security in their work. The Council is following development work on clarifying responsibilities and reporting lines for IT

security. The ongoing programmes to develop IT and IT security are also described in depth in budgets approved by the Council.

Assessments of IT security are an important part of the process of choosing suppliers and entering into contracts. Security reviews of suppliers may be performed as part of the supervision of the Bank.

In 2018, one such review of a supplier's IT security was performed. Norwegian Computing Center (NR) assisted with evaluating maturity, risk management practices and control of the management system for information security. On the basis of the review, there was an assessment of compliance with contractual clauses on IT security, flows of information between the parties, and other aspects of the services provided. It was not found necessary to revise the wording of the contract. The Council has taken note of the report on the review, and has asked the Office of the Supervisory Council to follow up on the response from the supplier.

During the Council's consideration and approval of the supervision plan for 2018, the Council pointed out that it is very important to pay attention to work on IT security by the Executive Board and the Bank in general. A more extensive report is being prepared and will be presented to the Council in the first half of 2019. Further supervisory reviews on topics such as the management of IT security both within the Bank and at third parties/suppliers may be relevant when projects involving new IT services and the organisation of IT operations are implemented.

REPORTING ON SOCIAL RESPONSIBILITY

Norges Bank's work on social responsibility in 2018 was discussed in a number of reports, the Executive Board's minutes and various items put before the Council during the year. The Board's annual report, the annual report on the management of the GPFG and the dedicated report on responsible investment present the Bank's approach in areas such as ethics, human rights, discrimination and corruption. The Council is keen to see openness in this reporting.

In November 2018, the Bank adopted an environmental strategy for its activities. The strategy includes a mix of

concrete short-term measures and long-term analytical work. In December, the Bank joined the Network for Greening the Financial System (NGFS), which brings together central banks and supervisory authorities to exchange experience and share best practices in order to help develop systems for managing environmental and climate risks in the financial sector. Finanstilsynet is also a member.

The Executive Board's ethical principles for employees require Norges Bank to maintain high ethical standards, respect human rights and behave in a socially responsible way. The Bank does not accept discrimination or corruption in any form. In 2018, these principles were updated. The changes are mainly to the rules on personal trading. In line with these changes, the Governor has also amended the ethical rules for employees in NBCBO, and the Conduct of Business rules at NBIM have been extended with new guidance on conflicts of interests and anti-corruption.

WORKING ENVIRONMENT AND GENDER BALANCE

A number of joint employee/employer committees have been set up under agreements between employee organisations and Norges Bank and the provisions of the Working Environment Act. The Working Environment and Works Council helps promote a good working environment and ensure that the requirements of the Inclusive Workplace (IA) agreement are met.⁴² The committee's organisation, composition, work and reporting comply with the Working Environment Act. It is chaired by the Governor and the Chief Shop Steward in alternate years. The Bank's doctor attends meetings.

Staff Consultation and HR Committees have also been set up to ensure communication, collaboration and staff consultation in agreements between employer and employees, one for NBCBO and one for NBIM. A -Negotiation Committee is appointed for each collective agreement period to facilitate pay negotiations with employee organisations.

⁴² The government and the social partners signed a fourth letter of intent for a more inclusive workplace (IA Agreement) on 4 March 2014. Norges Bank signed up to the agreement, which ran from 4 March 2014 to 31 December 2018.

The Working Environment and Works Council is to report to the Executive Board on its activities each year and forward this annual report to the Supervisory Council for information. The Board also reports on the working environment in its annual report. There were no injuries or accidents at the Bank's offices classified as serious or reported to the Norwegian Labour Inspection Agency in 2018. Sickness absence at the Bank has been low over time and well within the national targets in the IA agreement. Annual working environment (HCI)⁴³ surveys are conducted and appended to the annual report to the governing bodies. The Council notes that relevant laws and agreements concerning the working environment have been observed and reported on.

The Council considers it important for Norges Bank to set goals for gender balance. In connection with its consideration of the Working Environment and Works Council's annual report for 2017, the Council asked for a copy of the gender balance action plan.

The Executive Board has provided information on the Bank's work on gender balance. The Bank has prioritised work on gender balance in its strategy for 2017–2019. The Board has set a target of 40 percent women for both the overall workforce and management in both operational areas as a long-term goal.

The Board has decided to delegate to the Governor and the CEO of NBIM respectively the job of preparing and integrating gender equality work into the operational areas' strategies and action plans so that they are tailored to each area's specific circumstances. Gender balance is emphasised during planning, and the three main priority areas in the current strategy period are recruitment and reputation management, career development, and an inclusive working environment.

Reference is made to the information provided in the Board's annual report for 2018, which states: *"The share of women in management positions was 33% for NBCBO and 22% for NBIM. For other employees, the share was 43% for NBCBO and 31% for NBIM. This is almost unchanged from 2017. [...] The ratio of women's pay to men's pay for*

management positions at the end of 2018 was 94% for NBCBO, compared with 95% in 2017, and 88% for NBIM, compared with 93% in 2017. The ratio for other employees was 89% for NBCBO, compared with 88% in 2017, and 82% for NBIM, compared with 80% in 2017."

The Council sets great store by the Executive Board's reporting on the working environment and looks positively on the Bank setting and pursuing targets for gender balance. At a meeting, the Council asked the Bank's executive management about its ambitions for gender balance in management positions and steps taken to achieve the target of 40 percent women. The executive management explained that, in some areas, the gap between the current share of women and the target level has to do with the availability of female candidates. It appears to be a challenge to increase the share of female employees in some job categories.

WHISTLEBLOWING

The Supervisory Council has received a letter from the Executive Board concerning issues raised in the supervision report "The control structure at Norges Bank" dated 3 November 2016. The Board had been asked to look into whether the Bank should establish an external whistleblowing channel.

The Board believes that it is not desirable to establish an external whistleblowing channel for Norges Bank. Reference is made to the report of the government-appointed Whistleblowing Committee (NOU 2018:6), on which consultation ended on 3 September 2018, containing proposals for specific legislation on whistleblowing. The proposals do not require the whistleblowing channel to be external. The Ministry of Labour and Social Affairs has asked the Norwegian Labour Inspection Authority to draw up national whistleblowing guidelines in collaboration with employee and employer organisations.

The Executive Board writes that Internal Audit is the whistleblowing channel for all employees. In addition, complaints may be made through the compliance units at NBIM and NBREM. The whistleblowing system is considered easy to access and well set up. The Board highlights the independence of the Internal Audit unit, the

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assurance of anonymity, and the existence of multiple whistleblowing channels. The Bank has issued detailed procedures with guidance and information for employees.

One question raised by the Supervisory Council was whether there have been any “#metoo” cases at the Bank – reports of unwanted sexual advances. No such reports have been received.

The Council has taken note of the letter from the Executive Board and assumes that the Bank will assess any need to adjust the whistleblowing framework following changes in the law.

NORGES BANK'S PENSION FUND

Norges Bank's Pension Fund was established following a resolution of the Supervisory Council on 1 June 1916. The fund is an independent legal entity and prepares its own accounts. Its purpose is to provide retirement benefits for employees and former employees of Norges Bank and their survivors. Funded plans through the fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the basic amount in the National Insurance Scheme. The pension scheme complies with the National Insurance Scheme and is aligned with the rules for the Norwegian Public Service Pension Fund.

The fund's articles of association were laid down by the Supervisory Council.⁴⁴ Changes to the articles are to be approved by the fund's board and forwarded to Norges Bank's governing bodies for information. The fund's operations are supervised by Finanstilsynet.⁴⁵ Changes to its articles must also be approved by Finanstilsynet. The fund's board enters into an agreement with an approved actuary.

The fund is headed by a board with six members and four alternates appointed by the Executive Board of Norges Bank or employee organisations.

The fund prepares separate annual accounts. Its assets and liabilities are separate from Norges Bank. The Bank guarantees its share of the fund's premium reserve. In accordance with the fund's articles, the Supervisory Council has appointed Deloitte AS as the fund's auditor, and a separate engagement agreement has been entered into between the auditor and the board of the fund.

The Council considers it important for the fund to have good financial strength and generate good returns on its assets in order to reduce pension costs for the Bank. The Council is kept updated about the Board's appointment of members of the fund's board and receives the fund's annual report, accounts and auditor's report for information.

THE GOVERNOR N. RYGG FOUNDATION

The Governor N. Rygg Foundation was set up following a resolution of the Supervisory Council in 1954. The foundation has its own statutes, and its operations are supervised by the Norwegian Foundation Authority. It has base capital of NOK 200,000. Its objects include assisting employees and pensioners who require financial support for reasons such as illness, extraordinary strain or misfortune. The fund is also to help promote well-being and goodwill at the Bank through initiatives in the interests of employees and pensioners. Funds may be provided as gifts or loans at the board's discretion.

The foundation's accounts are to be audited by an auditor chosen by the Supervisory Council and put before the Governor. The members of its board are appointed by the Governor and the Bank's employees. Proposals from the board for changes to its statutes are to be put before the Supervisory Council before being submitted to the Norwegian Foundation Authority.

No matters concerning the foundation were brought before the Council in 2018.

NORGES BANK'S ECONOMIC RESEARCH FOUNDATION

Norges Bank's Economic Research Foundation was set up by the Bank on the occasion of its 150th anniversary in 1966 with base capital of NOK 2m. When the Bank celebrated its 175th anniversary in 1991, the foundation's

⁴⁴ Adopted on 13 December 2007 and last amended on 25 November 2010.

⁴⁵ Act on the Supervision of Financial Institutions etc. (Financial Supervision Act), Section 1, first paragraph, item 15.

base capital was increased to NOK 6m. The foundation currently has capital of around NOK 11m.

The foundation's purpose is to support research in the field of economics. Funding may also be provided to cover the costs of guest lectures on economics, prizes and participation in international research conferences. Altogether, the foundation approves applications for around NOK 200,000 each year. Every third year, a prize of NOK 50,000 is awarded for the best doctoral thesis in the field of macro-economics.

In 2018, the foundation's board approved the amendment of its statutes to remove the requirement for an annual real increase in its capital before distributions. The change will make it easier to make disbursements and so fulfil the foundation's purpose. The change is in line with the Foundation Appeals Board's assessment that it should be possible to limit distributions to the annual nominal return.

Under the foundation's statutes, proposals from the board for the amendment of its statutes are to be put before the Supervisory Council before being submitted to the Norwegian Foundation Authority. The Council endorsed the proposed changes.

SUPERVISORY REVIEWS AND ASSURANCE ENGAGEMENTS

One supervisory review reported on by the Office of the Supervisory Council in 2018 relates to the whole of Norges Bank's operations. The starting point was the approved supervision plan. No reports on assurance engagements relating to Norges Bank in general were received in 2018.

THE MANAGEMENT AND CONTROL OF CONTINGENCY PLANNING AND CRISIS MANAGEMENT (NON-FINANCIAL CRISES)

The purpose of the review was to assess the Executive Board's management and control of work on contingency planning and crisis management at Norges Bank. The review focused on the Board's design, establishment and organisation of this work, and how the Board ensures and

monitors compliance through the establishment of governance systems and procedures.

General risk assessments were performed as a starting point for the review. Norges Bank plays an important role in society. Among the most prominent threats are cyber attacks, potentially by countries with both the capacity and the intent to conduct such an attack. Threats that are less probable, but can be considered the most serious, are situations that could pose a danger to life and health.

The review was based primarily on policy documents, including principles issued by the Executive Board and policies and guidelines laid down within the operational areas. Presentations were also given on the organisation and implementation of crisis management by the operational crisis management and security organisations at NBCBO and NBIM.

The review was restricted to crises triggered by an unwanted event affecting employees, the Bank's most important assets or the Bank's capacity for self-defence. The Bank's role and responsibilities in the Norwegian financial system, including in financial stability, were not covered. The review also excluded the Bank's role in national emergencies/civil contingencies.

The regulatory basis for the review comprised:

- Section 5 of the Norges Bank Act, which states that it is the responsibility of the Executive Board to ensure that the Bank's operations are subject to sound governance and control
- The Bank's obligation to prepare contingency plans (cf. Section 5 of the Security Act and Section 3–4 of the Security Management Regulation)
- The four principles of crisis management (responsibility, equality, proximity, collaboration)⁴⁶

⁴⁶ These are stressed in various reports and documents on national security, such as Report to the Storting No. 10 (2016–2017) and NOU 2016:19. The principle of collaboration was added following the Breivik attacks on 22 July 2011, cf. Report to the Storting No. 29 (2011–2012).

Three assessment criteria were defined for the review:

1. To what extent are risk assessments prepared as a basis for work on contingency planning and crisis management, including whether the Bank's most important assets and dependencies have been identified?

The review revealed that Norges Bank attaches importance to valuations, and that this forms the basis for prioritising work on security and on contingency planning and crisis management. There have been positive developments in work on contingency planning and crisis management, reflected partly in a programme of risk-based exercises involving all those with roles in the crisis management organisation.

2. To what extent are there guidelines and contingency plans to deal with a crisis, including the extent to which the principles of responsibility, equality, proximity and collaboration are addressed?

The review found that there is a single crisis management organisation for the whole of Norges Bank. Clear guidance has been given by the Executive Board, including delegation to the Governor, who leads the crisis management organisation. The crisis management organisation is clearly divided into three levels: strategic, operational and tactical. Both operational areas are represented at every level.

The review did not find any areas of contingency planning and crisis management where the principles and guidelines are considered to be unclear. The documentation also addresses the principles of responsibility, equality, proximity and collaboration. The Supervisory Council obtained confirmation that there is good communication and co-ordination between the operational areas. It is clear that there is only one crisis manager, and that the rest of the organisation knows and respects this set-up.

3. To what extent have processes been established that enable the Bank to deal with situations that could have serious consequences?

The current crisis management organisation has been built up since 2012. The background to the current sharp focus on contingency planning and crisis management includes an internal vulnerability analysis following the Breivik attacks on 22 July 2011. A management system has been established for contingency planning and crisis management. The Executive Board has provided clear guidance in its policy documents on which assets are to be prioritised in a crisis, and receives regular reporting. Incidents are reported through the ordinary structure, whereas crises are to be reported as quickly as possible to the Executive Board.

The report sums up with two recommendations for the Executive Board. It recommends that the Board draws up a general principles document for risk management and internal control that is more detailed than the current one and covers all operational areas. It is further recommended that the roles and responsibilities of employees who are part of the crisis management organisation are set out in their job descriptions.

The report also concludes that the Board has established principles for contingency planning and crisis management and principles for risk assessments. It has set up a crisis team and clear guidance for its management. The principles are observed and recognised by the head of the crisis team and the operational areas. Procedures have also been put in place to ensure that information on critical areas and threats flows to the Board.

The Supervisory Council took note of the report and forwarded it to the Executive Board with a request for feedback on the recommendations.

The Board responded in a letter. The Board's view is that contingency planning and crisis management are adequate and regulated in detail for both operational areas through the established framework. The recommendation in the supervision report is taken as a request to consider the need to formulate the Bank's general principles for risk management in greater detail than today. The Board writes that it concurs that the general principles document should be reviewed, and that there may be reason to look more closely at whether there should be more detailed Bank-wide rules on risk management and internal control.

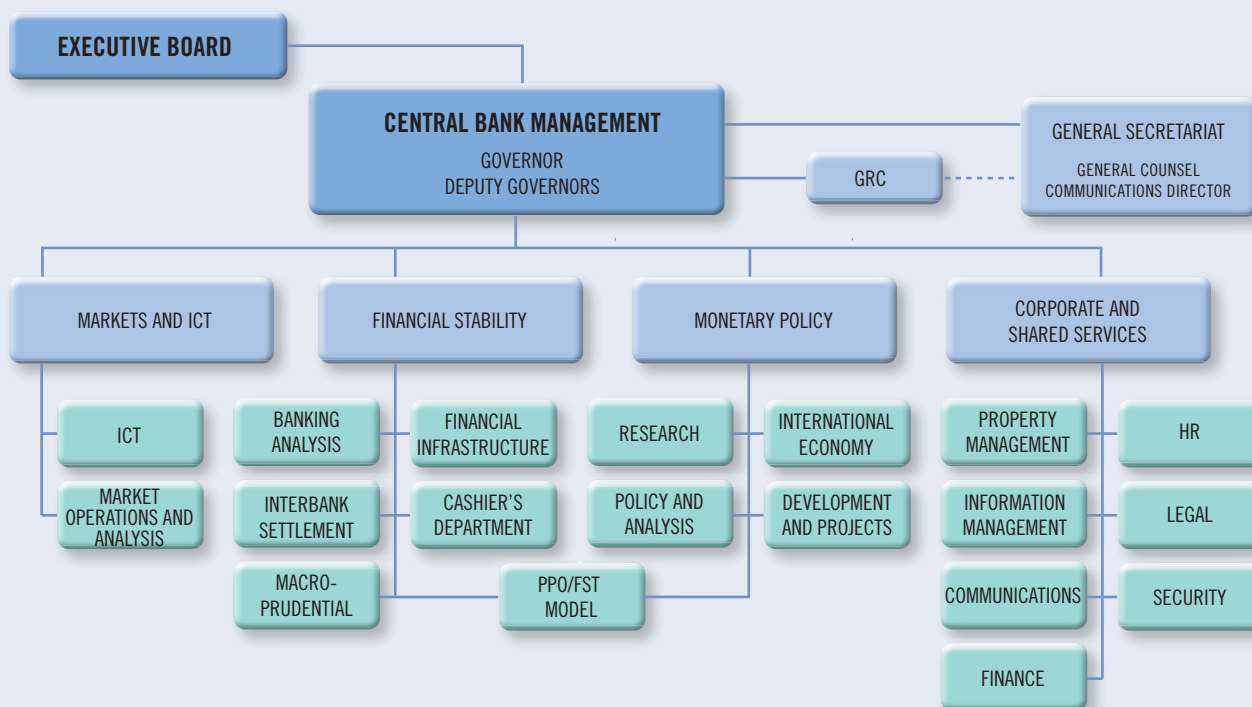
When it comes to the recommendation on including information in job descriptions, the Board writes: *“The Board has noted that the review by the Office of the Supervisory Council did not identify any areas of contingency planning and crisis management where the principles and guidelines are considered unclear. The Board has also noted the Office’s impression that there is good communication and co-ordination between the operational areas.*

“The strategic management level of the crisis management organisation consists of six managers in addition to the Governor and Deputy Governors. [...] For these six managers, the Board believes that it is natural for their role in the crisis management organisation to be set out in their job descriptions.

“At the operational and tactical management levels of the crisis management organisation, there will be variations in which specific employees perform the various functions at any one time. [...] The Board considers it natural for the operational areas themselves to assess whether the roles and responsibilities of employees at the operational and tactical levels of the crisis management organisation should be set out in individual job descriptions.”

The Council has not had any further questions and will follow the Board’s continued follow-up and development of the framework.



FIGURE 6 CENTRAL BANKING OPERATIONS

CHAPTER 6

SUPERVISION OF CENTRAL BANKING IN 2018

RESPONSIBILITIES AND ORGANISATION OF NORGES BANK CENTRAL BANKING OPERATIONS (NBCBO)

Norges Bank is the central bank of Norway. Its responsibilities include the conduct of monetary policy, managing the nation's foreign exchange reserves⁴⁷, issuing banknotes and coins, and promoting efficient payment systems.⁴⁸ NBCBO is organised into departments for Monetary Policy (PPO), Financial Stability (FST) and Markets and ICT (MI). A Corporate and Shared Services Department provides administrative support for NBCBO as well as functions and processes covering the whole of the Bank.

Figure 6 presents the organisation of NBCBO in 2018.

When it comes to the execution of the Bank's core activities, the heads of department are responsible for risk management, internal control and financial management in their particular department. They also issue internal guidelines as required.

NBCBO carries out extensive analytical work that is published. These analyses are used in the Executive Board's decisions on the key policy rate during the year and the Bank's advisory work.

More detailed information about NBCBO's activities can be found in reports and publications on central banking available on Norges Bank's website. The Supervisory Council receives reports on the various duties that the Bank discharges and briefings on this work at its meetings. The Governor also provides information on the Board's work and decisions on monetary policy at meetings of the Council. The Council's supervision does not extend to the Board's exercise of discretionary authority, cf. Norges Bank Act, Section 5, fourth paragraph.

ONGOING SUPERVISION

MANAGEMENT AND OVERSIGHT BY THE EXECUTIVE BOARD AND GOVERNOR

The Executive Board has adopted principles for risk management at NBCBO which set out constraints and requirements consistent with the Internal Control Regulation. Relevant financial and operational risk concepts are defined, and requirements are laid down for management and reporting. The Board considers reports on financial risk each quarter and operational reports every second quarter. These reports cover areas such as the status of action plans and expenditure, operational risks, compliance and internal control.

The Council's supervision of the management of NBCBO involves reviewing the twice-yearly reporting by the Executive Board and consideration of the Board's minutes. The status of action plans is considered together with management reporting, annual reports on expenditure, and the adoption of budgets for Norges Bank. This is discussed later in the report.

The Council has been kept informed about the principles and guidelines for risk management. It is very important for the Council's supervision that there are documented procedures for reporting and addressing breaches of rules and incidents, together with the implementation of risk reduction measures. No incidents at NBCBO with serious consequences for Norges Bank were reported in 2018.

Various changes to the guidelines for NBCBO were made in 2018, and the Council was kept informed through periodic reporting and items in the Board's minutes that were elaborated on at Council meetings. The past year has brought changes in areas such as risk management, bonus schemes, information security, data protection and the management of internal policy documents. When it comes to requirements for the management of operational risks, the guidelines refer to ISO standards and ISO Guide 73:2009.⁴⁹ These guidelines also set out roles and the division of responsibilities between the first and second lines of defence in the control model.

⁴⁷ Norges Bank Act, Section 24.

⁴⁸ Cf. Norges Bank Act, Section 1 "Purposes and functions of Norges Bank".

⁴⁹ ISO standards are the recommended and relevant international standards for risk management.

STRATEGIC INITIATIVE – UPGRADING THE IT PORTFOLIO

The Supervisory Council has been kept informed about the ongoing work at NBCBO on upgrading its IT portfolio under the DiffIT (Differentiated IT Portfolio) programme. This work includes establishing a system portfolio and modernising operating platforms. The upgrading of the IT portfolio in the period 2019–2021 has an indicative budget of NOK 230m (in 2018 money), including NOK 49m in 2019. This is included in the budget approved by the Council, which is discussed later in this report.

Within IT security, work is under way on strengthening the internal organisation and competence in close relation to the DiffIT programme. The Council considers it important for the Bank to work systematically in the IT area.

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and International Monetary Fund (IMF) reserve positions. The Norges Bank Act requires the Bank to invest the official foreign exchange reserves with a view to maintaining the foreign exchange policy that has been established.⁵⁰ The foreign exchange reserves are the Bank's contingency funds in international currency and are to be available for conducting monetary policy, promoting financial stability and meeting the Bank's international commitments.⁵¹ Considerable importance is attached to investing the foreign exchange reserves in liquid instruments. Within this framework, the aim is for the reserves to be managed cost-effectively and with a positive relative return. Specific rules and guidelines for the management of the reserves have been issued which differ clearly from the management of the GPFG.

The reserves make up around 90 percent of the Bank's assets excluding the GPFG. Their market value at the end of 2018 was NOK 514bn (2017: NOK 512.4bn). The foreign exchange reserves comprise a fixed-income portfolio, an equity portfolio and a petroleum buffer portfolio.

The buffer portfolio receives the government's foreign-currency cash flows from petroleum activities and any transfers from the GPFG, and forms part of Norges Bank's management of the government's need to convert between foreign currency and NOK.

The Executive Board has issued principles for the management of the foreign exchange reserves. The Governor issues supplementary guidelines for the management of the reserves and has the power to depart from the principles set by the Board if warranted by security considerations. Responsibility for managing the reserves rests with NBCBO, but NBIM handles the operational management of the equity portfolio under an agreement.

Following the annual review of the strategy for the foreign exchange reserves, the Board decided in November to reduce the strategic equity allocation from 35 percent to 20 percent. The background to this was an assessment of potential liquidity needs in a crisis. The Board's principles for the management of the reserves were amended in line with this decision.

Quarterly reports on financial risk and the management of the foreign currency reserves were submitted to the Supervisory Council for information. The reports are published by Norges Bank. For the fourth quarter, successful implementation of the rebalancing of the equity and fixed-income portfolios in the foreign exchange reserves was reported. Much of the change was achieved through transfers of securities between the GPFG and the foreign exchange reserves as a result of opposite positions in equities and fixed-income instruments. No breaches of the Board's guidelines were reported during the year, nor any abnormal circumstances.

MONETARY POLICY AND FINANCIAL STABILITY

The government issued a new regulation on monetary policy in March 2018. Norges Bank commented on the proposed changes in a letter to the Ministry of Finance, opining that the new regulation clarifies the monetary policy mandate and underpins the flexible approach to inflation targeting. The Bank does not believe that the new regulation will result in significant changes in the conduct of monetary policy.

⁵⁰ Cf. *Norges Bank Act*, Chapter 5.

⁵¹ This corresponds to the IMF definition of foreign exchange reserves.

Norges Bank accepts deposits from commercial banks and savings banks on terms laid down by the Bank. Banks may deposit excess liquidity at Norges Bank, or obtain sufficient liquidity for the settlement of payments at the Bank by borrowing against collateral in the form of securities. The interest rate paid on banks' deposits is the most important rate in the conduct of monetary policy (key policy rate). In accordance with the regulation on a countercyclical capital buffer, Norges Bank produces documentation as a basis for decisions and gives the Ministry of Finance advice each quarter on the level of this buffer at the banks. Vulnerability in the bank sector is analysed continuously.

The Supervisory Council does not supervise the Executive Board's discretionary decisions, but monitors the underlying assessment processes through information provided by the Governor at its meetings. This includes decisions on the key policy rate and advice on the countercyclical capital buffer.

A monetary policy report with an assessment of financial stability is published four times a year together with the Board's interest rate decisions.

NORGES BANK'S SETTLEMENT SYSTEM (NBO)

Norges Bank is the top-level settlement bank for interbank payments in Norway. This role derives from the provisions of the Norges Bank Act on promoting an efficient payment system domestically as well as vis-à-vis other countries, and banks' right to open accounts with, and borrow from, Norges Bank. Payment transactions between banks in Norway are settled through accounts at Norges Bank.

Norges Bank's settlement system (NBO) and the overall payment system in Norway are highly dependent on IT and external suppliers for their operation. There is a high inherent risk of operational disruption and cybercrime. The payment system and financial infrastructure provide a critical function for society. NBO is therefore covered by the Security Act's requirements for the protection of "sensitive objects". NBO must comply with, and report in line with, relevant international standards.

The Council monitors reporting on operational stability and the management of risk and contingency planning through ordinary management reporting. An internal annual report on NBO is forwarded to the Council for information. No significant operational disruptions were reported in 2018.

NORGES BANK'S ROLE AS ISSUER OF BANKNOTES AND COINS

Norges Bank has a sovereign right to issue Norwegian banknotes and coins. This role is set out in the Norges Bank Act. The central bank is responsible for promoting an efficient payment system and ensuring that the public has the necessary access to cash.

Norges Bank's distribution warehouse is a "sensitive object" under the Security Act. High levels of security have been established with internal control processes and oversight by Internal Audit, the external auditor and the Office of the Supervisory Council. The Executive Board and the Governor have issued general internal guidelines. The Governor's guidelines on physical security at the Bank include general requirements for security standards in vaults and premises that also apply to central bank depots and suppliers' warehouses.

Notes and coins in circulation outside Norges Bank amounted to NOK 44.8bn at the end of 2018, down around NOK 2bn on a year earlier. The Council considers the Bank's annual reports on notes and coins and relevant management reporting. Work on the destruction of banknotes is largely automated and carried out locally at the Bank's depots, which are operated by external suppliers. The Office of the Supervisory Council monitors reports on the Bank's control of the cash depots during the year.

Pursuant to Sections 13 and 16 of the Norges Bank Act, the Bank may issue jubilee and commemorative coins or circulation coins with special designs. The Council was informed about the Executive Board's new guidelines for commemorative coins in 2018, and attached importance to a review of the system for commemorative coins being followed up. Experience from the current system and initiatives from the Ministry of Finance relating to the system formed the background to the changes. A restrictive approach to the issue of commemorative coins is

presupposed, in line with the assumptions in the preparatory work on the Norges Bank Act.

Norges Bank is on schedule with the issue of a new and more secure banknote series. New NOK 100 and NOK 200 notes were released in 2017, and new NOK 50 and NOK 500 notes followed in autumn 2018. A new NOK 1,000 note is due to be launched in the fourth quarter of 2019. Expired notes and coins with a value of NOK 13.9m were redeemed in 2018, compared with NOK 13.6m in 2017.

The external auditor carries out various controls of the correct registration of stocks. No weaknesses in internal control in this area have been detected. This work is described in the presentation of key audit matters in the auditor's report on the Bank's annual financial statements.

The Council receives an internal annual report on notes and coins for information, and monitors the issue of new notes and exchange of expired banknote series via management reporting from NBCBO. Parts of this reporting are made public.

SUPERVISORY REVIEWS AND ASSURANCE ENGAGEMENTS

The report on crisis management discussed above also covered NBCBO. No other supervisory reviews dealing specifically with NBCBO were conducted in 2018. Two regular assurance statements were provided under engagement agreements on annual tasks, which are discussed below. Both statements had a positive conclusion. This means that no non-conformances were identified that present risks or a need for follow-up action.

GOVERNMENT ACCOUNTS AT NORGES BANK

Norges Bank has various duties relating to central government payments, cash management and debt. These duties have their legal basis in the Norges Bank Act and are regulated in more detail in an agreement with, and mandate from, the Ministry of Finance.

At the end of 2018, deposits from central government bodies amounted to NOK 188bn across 792 accounts. The Bank is responsible for implementing and overseeing the agreement's stipulations on security, backups and emergency procedures, including tasks performed by external suppliers of operational and account management services. This work is to be performed in accordance with the regulations on financial management in central government and the guidelines for settlement accounts in the group account system.

Under the agreement with the Ministry of Finance, an annual independent assurance statement⁵² is to be obtained on Norges Bank's documentation of compliance with the requirements in the agreement, including security requirements for the management of the government's accounts at the Bank. Deloitte AS submitted an assurance statement for 2018, which has been noted by the Supervisory Council and made available to the Ministry of Finance.

MANAGEMENT OF GOVERNMENT DEBT

The government borrows to fund state lending schemes, repay maturing debts and ensure that it has adequate cash holdings. The Ministry of Finance has set a requirement that central government cash holdings must at all times amount to at least NOK 35bn. The overall objective for the management of government debt is to meet the government's borrowing needs at the lowest possible cost within given risk limits.

Norges Bank has operational responsibility for the management of government debt under a mandate issued by the Ministry of Finance. The Bank is to issue government debt and enter into financial contracts in the Ministry of Finance's name. For example, auctions are held to issue and repurchase government bonds and treasury bills during the year. An annually agreed fee is received from the Ministry.

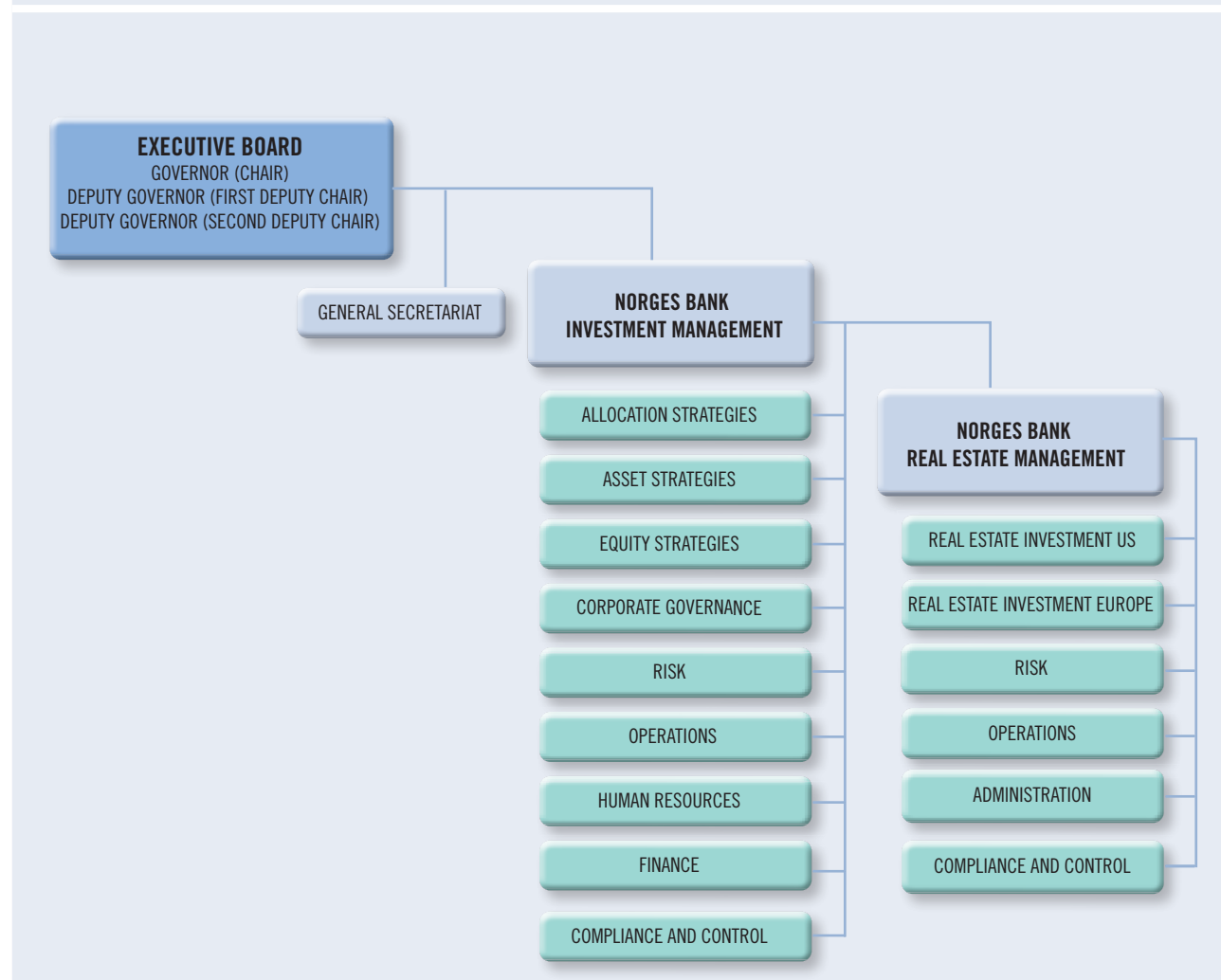
Government debt forms part of the central government accounts and is not included in Norges Bank's annual financial statements. Quarterly reports and an annual report are submitted to the Ministry of Finance and published by Norges Bank.

⁵² Assurance engagement under ISAE 3000.

The rules on financial management in the central government sector require all entities to establish systems and procedures with inbuilt internal control. This also applies to tasks delegated to others. At the request of the Ministry of Finance, an independent assurance engagement is carried out covering the management and control of accounting and payments in the management of government debt.

Deloitte AS has submitted an assurance statement for 2018, which has been noted by the Supervisory Council and made available to the Ministry of Finance and the Office of the Auditor General. The Office of the Auditor General also received a report from Deloitte AS in 2018 on agreed control procedures relating to the accounts for government debt management.



FIGURE 7 ORGANISASJONSKART NBIM OG NBREM

CHAPTER 7

SUPERVISION OF INVESTMENT MANAGEMENT IN 2018

RESPONSIBILITIES AND ORGANISATION OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

Norges Bank manages the Government Pension Fund Global (GPF) under the Government Pension Fund Act⁵³, the Management Mandate for the Government Pension Fund Global⁵⁴ and the Guidelines for Observation and Exclusion from the Government Pension Fund Global⁵⁵. The operational management of the GPF is carried out by NBIM. NBIM also manages the equity portfolio in the Bank's foreign exchange reserves on behalf of NBCBO, as mentioned earlier in the report.

The Executive Board has issued an investment mandate and job description to the CEO of NBIM transferring various powers. The CEO has overall responsibility for all matters in this operational area and reports directly to the Board. The Governor's role in this context is as chair of the Executive Board.

In 2018, the operational management of unlisted real estate investments was organised separately under Norges Bank Real Estate Management (NBREM). The CEO of NBREM was appointed by the Executive Board on the recommendation of NBIM's CEO and reported to the CEO of NBIM, who also issued a job description and investment mandate for this part of the GPF's portfolio.

At its meeting of 6 February 2019, the Board approved the main elements of a new strategy for real estate management in the GPF. 2019 will see work on preparing a new strategy for the GPF for the period 2020–2022, including real estate management. With a limited portfolio of unlisted real estate and an increased desire to take a combined approach to listed and unlisted real estate, the Board no longer considers it appropriate to have a separate organisation for unlisted real estate. It has therefore decided to discontinue NBREM as a separate organisational unit. NBREM's real estate organisation will be integrated into NBIM in an appropriate manner. The aim is to operation-

alise a new organisational model for NBIM from 1 April 2019. The Governor has informed the Council about this decision and about Norges Bank's letter to the Ministry of Finance of 7 February 2019 presenting the decision.

The organisation of investment management in 2018 is shown in Figure 7.

NBIM is led from Norges Bank's headquarters in Oslo and also has offices in London, New York, Singapore and Shanghai. As part of real estate management at NBREM, there are also offices in Tokyo and Luxembourg, and various wholly-owned operating subsidiaries have been formed.

The GPF is a deposit in an account at Norges Bank. The countervalue is managed as an investment portfolio of financial instruments, real estate and cash deposits outside Norway in Norges Bank's name. At the end of 2018, the investments in the GPF had a market value of NOK 8,256bn. The GPF is invested in most markets, countries and currencies to achieve broad exposure to global economic growth. It was invested in more than 9,000 companies at the end of the year.

Further information can be found in Norges Bank's annual report and financial statements for 2018, and the annual report and three quarterly reports on the management of the GPF. The mandate for the GPF requires the Bank to report publicly on its investments and its performance. Extended reports are also published on responsible investment, unlisted real estate investments, and return and risk, as well as a GIPS⁵⁶ report.

ONGOING SUPERVISION

MANAGEMENT AND OVERSIGHT BY THE EXECUTIVE BOARD AND NBIM

The Ministry of Finance has defined the overall objective for the GPF in its management mandate: *"The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket and within the applicable management framework."*

The Executive Board has adopted a strategy for the period 2017–2019. It is to evaluate regularly the extent to which

⁵³ Act of 21 December 2005.

⁵⁴ Laid down by the Ministry of Finance on 8 November 2010, as subsequently amended.

⁵⁵ Laid down by the Ministry of Finance on 18 December 2014, as subsequently amended. The guidelines apply to the Council on Ethics for the Government Pension Fund Global and Norges Bank.

⁵⁶ Global Investment Performance Standards.

the goals in the strategy plan have been achieved. The Board is kept informed partly through internal management reporting. In addition, the Board publishes quarterly and annual public reports on the management of the GPFG.

The Ministry of Finance has defined a benchmark index against which the management of the GPFG is measured. One important provision in the mandate requires Norges Bank to manage the fund in such a way that expected relative volatility (tracking error) does not exceed 1.25 percentage points. NBIM employs a variety of investment strategies.

In the white paper on the Government Pension Fund for 2016, the government recommended increasing the allocation to equities in the strategic benchmark index for the GPFG from 62.5 to 70 percent. A majority of the Storting approved this.⁵⁷ Adjustments towards this increased equity share were made during 2017 and 2018. Unlisted real estate was removed from the benchmark index from 2017 but remains part of the investment universe. It is up to Norges Bank to decide how much is to be invested in unlisted real estate, and which types of property the GPFG is to invest in, within set limits. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

In accordance with the Internal Control Regulation, the Executive Board has issued principles for risk management at NBIM. Risk management is to be integrated into NBIM's processes, into strategy planning and into procedures for change management. The principles are also to cover measures to control and validate relevant risks and provide an overview of the control measures implemented to address risks.

The Board has also issued principles for the remuneration of employees at NBIM and for responsible investment management at Norges Bank.

The Board reviews the policy documents laid down for investment management annually in line with the requirement for regular assessment of these documents. In 2018, the Board's principles for the remuneration of employees at NBIM were updated. In the Board's principles for risk management at NBIM, the definition of credit risk and the

description of the method to be used to calculate counterparty risk were updated. The Supervisory Council was kept informed of the Board's assessments and decisions.

The investment mandate for the CEO of NBIM was updated with revised limits for investments in unlisted real estate and net additions to unlisted real estate investments during a calendar year. The CEO issues internal management guidelines, including investment mandates and job descriptions.

The Board receives periodic reports on governance, operational risk management and compliance. The Governor and Board are also notified without delay of any special events or situations. No significant breaches of the Ministry of Finance's rules for the management of the GPFG were reported in 2018. Nor were any significant breaches of market rules or general legislation reported by local supervisory authorities.

The Council's supervision of the governance of investment management takes the form of considering periodic reports from the Executive Board and monitoring the Board's minutes. In its supervision, the Council attaches great importance to documented procedures for reporting breaches of rules and incidents, together with the implementation of risk reduction measures. The Office of the Supervisory Council discussed incidents and follow-up procedures at meetings with the compliance units during the year. No incidents during the year were reported as having serious consequences.

RETURN AND RISK

The mandate requires Norges Bank to aim for the highest possible return after costs in its management of the GPFG. In addition to quarterly and annual reports on the management of the GPFG, the Bank publishes an extended report each year on return and risk. This report includes multiple calculation methods and metrics for risk-adjusted return.

The Executive Board forwarded NBIM's periodic reports on return and risk to the Supervisory Council during the course of 2018. The Office of the Supervisory Council works with international advisers to review this reporting and forwards its assessments to the Council. The Council is also informed about the Bank's advice to the Ministry of Finance on the investment strategy for the GPFG.

⁵⁷ Recommendation 357 S (2016–2017).

During this process, the Council took note of information on returns and the use of the risk limits in the mandate. Briefings by the Bank's executive management included a focus on historical performance and relative returns, as well as expectations for future performance and risks.

EXTERNAL PORTFOLIO MANAGEMENT

At the end of 2018, Norges Bank had agreements with external managers on the management of around 4 percent of the GPFG's investment portfolio. These investment mandates mainly concern the fund's equity portfolio in emerging markets. NBIM has established procedures for selecting, overseeing and terminating external managers. Managers are monitored closely during the year.

The Office of the Supervisory Council has developed a model for selecting external managers for site visits. The model has evolved over the past five years. One selection criterion is mandates in countries with high ESG risks.⁵⁸ Information on corruption, environmental issues, human rights, minority shareholder rights and national regulatory conditions form part of this model. Data are obtained from publicly available sources.

Ahead of a visit, information is also obtained about the country in question, for example from the Ministry of Foreign Affairs and the local embassy. Meetings are also held with the group at NBIM that oversees external managers.

In 2018, three managers in South Africa were singled out for supervisory visits. Through these meetings, the Office gained an insight into the managers' organisation, management strategy and control systems. One topic examined was how these managers monitor the ESG performance of companies in the investment portfolio. Observations from this process were discussed with NBIM. No particular risks requiring more detailed explanation or further supervisory follow-up were identified during the visit.

ACTIVE OWNERSHIP AND RESPONSIBLE INVESTMENT

The Executive Board's principles for responsible investment have been drawn up in accordance with Chapter 2 of the management mandate for the GPFG. The aim of responsible investment is to support the management objectives by furthering the long-term performance of the

GPFG's investments and reducing the financial risks associated with environmental and social issues.

The Executive Board takes the final decision on observation and exclusion of companies after receiving a recommendation from the Council on Ethics.⁵⁹ Exclusions can also be reversed following a decision of the Board and on the recommendation of the Council on Ethics. These decisions are minuted and published, and the Ministry of Finance is informed separately.

Through its management mandate for the GPFG, the Ministry of Finance has expressed clear expectations for the Bank's work on responsible investment. The Ministry has also issued Guidelines for Observation and Exclusion from the Government Pension Fund Global. These guidelines state that the Bank may consider whether measures other than those recommended by the Council on Ethics may be more suited to reduce the risk of continued norm violations or more appropriate for other reasons. For example, the Bank may consider active ownership as an appropriate measure, which the Council on Ethics itself is not able to recommend. The Bank is to consider the full range of measures at its disposal and apply them in a coherent manner. In some cases, this broader assessment may mean that the Board decides on a different course of action to that recommended by the Council on Ethics.

Norges Bank reports extensively on active ownership and responsible investment in its annual and quarterly reporting and also in a separate annual publication.

The Supervisory Council monitors the Board's processes for considering recommendations from the Council on Ethics through reports and minutes from the Board. Where the Council had questions about cases where the Board decided on a different course of action to that recommended by the Council on Ethics, the Governor provided additional information. Further information was also requested about companies that have been excluded, and the Bank's executive management provided examples of factors to which the Board attached importance in its

⁵⁸ Environmental, social and governance risks.

⁵⁹ The Council on Ethics for the Government Pension Fund Global was formed by the Ministry of Finance to evaluate whether investments in specific companies are inconsistent with the ethical guidelines for the GPFG, and to recommend observation or exclusion of companies by Norges Bank.

decisions. The Council notes that there is considerable openness about this activity and the decisions.

Seven expectation documents considered by the Executive Board have been published since 2008. These set out how Norges Bank expects the companies in which the GPFG invests to approach global challenges. The latest topics covered are tax and transparency, and ocean sustainability. These expectations reflect the UN's Sustainable Development Goals. Position papers have also been published to address concrete corporate governance issues and form a basis for voting.

In November 2018, NBIM became a member of the UN Global Compact. It aims to be a global leader in responsible investment.

The Council has reviewed the Bank's reporting on responsible investment in the quarterly and annual public reports on the GPFG. Over time, the Council has attached importance to the Bank's work on responsible investment being focused, and its reporting in this area concrete. Norges Bank complies with the established framework, and the Executive Board minutes its independent decisions on exclusions and divestments.

UNLISTED REAL ESTATE INVESTMENTS AND THE MANAGEMENT AND CONTROL OF RISK IN REAL ESTATE MANAGEMENT

The aim of this ongoing supervision has been to monitor developments in the control structure and areas with particular risks, and to understand the holding structures. It is also intended to ensure that the Council has adequate access to these structures for oversight. The Office of the Supervisory Council has monitored developments in real estate management through meetings with the compliance unit at NBREM and a review of the quarterly reporting to the Executive Board.

The Council has issued guidelines on the supervision of companies owned by Norges Bank in connection with the GPFG's real estate investments. Its right of access is to be governed through formal policy documents and corporate documents. The Board must ensure that the Council has real and effective supervisory access.

In connection with a supervisory review of the follow-up of third-party risks in the management of the real estate portfolio, the Office of the Supervisory Council visited a real estate manager in Berlin.

SUPERVISORY REVIEWS AND ASSURANCE ENGAGEMENTS

The report on crisis management discussed earlier also covered NBIM and NBREM. Based on the approved supervision plan for 2018, reports were received on three supervisory reviews relating to investment management. A further supervisory review of the Executive Board's management and control of third-party risks in real estate management is in progress, and the report will be submitted to the Supervisory Council in spring 2019.

FOLLOW-UP OF CHANGES TO THE MANAGEMENT MANDATE FOR THE GPFG

The Executive Board is responsible for issuing goals and strategies for Norges Bank and general guidelines for the Bank's operations. The management mandate for the GPFG sets out rules on how the Bank is to carry out this task. The management of the GPFG has evolved over time, and there have been major changes in the Bank's management role since the fund's inception.

The aim of this review was to evaluate the Executive Board's control and oversight of return and risk in periods with mandate changes. The review also looked at whether reporting on performance and risk is as comparable and consistent as possible over time.

Changes to the mandate may entail changes to the asset mix, changes to the investment universe, or changes to the benchmark indices for measuring return and risk limits. Other factors such as phasing in new capital and rebalancing can also impact on Norges Bank's management of the GPFG. A transparent and consistent reporting framework is important for the oversight and evaluation of risk exposure and performance. Assessing how results and risk exposure are measured and evaluated is important when alterations are made to the mandate.

The supervisory review selected two examples of mandate changes: the switch to market weighting rather than

strategic regional weighting of equities, and the removal of unlisted real estate from the benchmark index.

There are no international standards dealing specifically with how institutional investors are to follow up risk and performance in periods of change. The Office of the Supervisory Council's adviser, Oliver Wyman AB, helped identify relevant practices at other institutional investors, such as the Alaska Permanent Fund Corporation, New Zealand Superannuation Fund and Canada Pension Plan Investment Board.

Starting from how return and risk are measured and evaluated, the following assessment criteria were used for the review:

- Are the benchmarks and the reporting to the Executive Board sufficiently consistent that the portfolio's risk exposure and return can be measured and monitored from period to period?
- Are the benchmarks and the reporting considered by the Executive Board relevant to the established strategy and sufficient to evaluate developments in risk and return?

Assessments were made of how extensive the reporting is, the relevance of the information provided, and whether it provides a sufficient basis to draw conclusions and reach decisions on strategic matters.

Norges Bank's processes for following up mandate changes largely conform to practices among other institutional investors.

The methods for measuring and reporting return and risk are clear and comply with international standards (GIPS). Without clearer requirements and expectations for return and risk exposure than those set out in the mandate, it seems difficult to assess whether the implementation of mandate changes impacts on the management of the GPFG in the desired way. This is potentially important management information.

The supervision report raised four questions to which the Executive Board was asked to respond:

1. How does the Board ensure an agreed understanding of benchmarks/terms used in the reporting?

2. How does the Board evaluate the consistency of reporting, and has it considered drawing up a list of definitions of key benchmarks/terms to be appended to all reports?
3. How does the Board ensure that targets and reporting are aligned with mandate changes made after a strategy plan is in place?
4. What is the Board's process for assessing whether the implementation of a mandate change has good results in terms of risks and costs and any other requirements and expectations?

The Supervisory Council endorsed the conclusions reached and questions raised in the supervision report, which was forwarded to the Board with a request for comments on the conclusions. The Board provided extensive comments in its letter of reply.

On the first question, the Board writes that it *"is working actively with management on developing internal reporting and terminology. Benchmarks/terms used in internal reporting are therefore agreed and defined in consultation with the Board."* More detailed comments on the conclusions in the report are provided to support this response.

On the second question, the Board argues that *"having valuation and return measurement performed independently of the investment departments is an important control measure in ensuring both accuracy and consistency in the publicly reported figures. There are also valuation committees at both NBREM and NBIM, and quality assurance processes covering the production of public reports. In addition, the figures are subject to external auditing."*

"The Board would also refer to the work of Internal Audit. In the annual plan for 2018, the Board asked Internal Audit to provide an independent assessment of the management and control of benchmark indices as a basis for the measurement of risk and return."

When it comes to making adjustments once a strategy plan is in place, the Board comments: *"As stated in the supervision report, mandate changes are taken into account in the reports the Board receives on the management of the GPFG. This reporting is adjusted to changes in the mandate and policy documents, regardless of whether the changes take place after a strategy plan has been put in place."*

“The supervision report points out that the diversification effect of the Bank’s real estate investments is not expressed in figures. The Bank has previously published detailed analyses of the potential for diversification through real estate investments. Reporting on actual diversification gains in the GPFG, however, requires a sufficient history. It is not that many years since the Bank made its first investment in unlisted real estate, it has taken several years to build up the portfolio into its current form, and these investments have gradually come to cover more sectors and geographical regions.

“Suitable methods and metrics will be needed to shed light on relevant developments over time. For example, it will not be appropriate to use monthly data. The Board monitors reporting on the effects on the fund’s overall risk and return continuously.”

On the final question, the Board refers to the fact that the management mandate for the GPFG is issued and amended by the Ministry of Finance and comments that *“when changes are made to the benchmark index, it is not Norges Bank but the Ministry of Finance that decides on the implementation plan. The division of duties in the management of the GPFG means that assessing the results of the chosen benchmark index and changes to that index is primarily a matter for the Ministry rather than the Bank.*

“By drawing on the limit for relative risk, the Bank can alter the composition of the portfolio from that which would follow from the Ministry’s changes to the benchmark index. Such deviations will affect the fund’s return and risk, and the portfolio is measured and reported relative to the Ministry’s benchmark index. Mandate alterations other than changes to the benchmark index may also impact on return, risk and costs if they affect which investments the Bank makes in the actual portfolio. The Board would refer here to the reporting on the trade-off between return and risk over time and to the analyses of contributions from individual management strategies dating back to 2013.”

The Council took note of the Board’s response.

Responsible investment – three reviews

In 2017, the Ministry of Finance asked the Supervisory Council to consider one or more assurance projects in the area of responsible investment. As a first step in the planned work, based on input from the Ministry, an assurance statement from Deloitte AS was considered in 2017. The assurance project covered the development and com-

munication of Norges Bank’s principles for responsible investment for the GPFG.

Reports from two further supervisory reviews of the principles and rules for responsible investment and the mandate for the GPFG were submitted by the Office of the Supervisory Council in 2018:

- The Executive Board’s handling of the observation and exclusion of companies in the management of the GPFG
- The Executive Board’s follow-up of the OECD’s guidance for institutional investors in the management of the GPFG

DEVELOPMENT AND COMMUNICATION OF NORGES BANK’S PRINCIPLES FOR RESPONSIBLE INVESTMENT FOR THE GPFG – RESPONSE FROM THE EXECUTIVE BOARD

The assurance statement from Deloitte was discussed in Report to the Storting No. 9 (2017–2018).⁶⁰ A letter on the statement was submitted to the Ministry of Finance and published.⁶¹ The Executive Board’s response was considered by the Council on 10 September 2018.

Drawing on resources from its international network, Deloitte AS conducted a review of whether the Board’s principles in the area are anchored in NBIM and NBREM’s organisation. The starting point for the assurance project was the mandate for the GPFG. Its requirements for responsible investment are extensive, with a variety of different principles and guidelines. Implementation in this area varies across sectors and with the status of relevant principles and guidelines.

The assurance report from Deloitte AS had a positive conclusion concerning the development of principles, communication and reporting. This conclusion applied only to the areas defined in the assessment criteria. The assurance report also singled out three areas with room for improvement and made the following recommendations:

“As part of the further development of responsible investment,

1. *NBIM and NBREM should consider strengthening the process by further formalising that NBREM is to provide*

⁶⁰ The assurance engagement was conducted in accordance with the international standard for assurance engagements ISAE 3000.

⁶¹ <https://www.norges-bank.no/contentassets/c80274266a8f496cbebad44b2045cd04/2018-03-16-attestasjonsoppdrag.pdf>.

input at co-ordination meetings on any changes to the principles for responsible investment.

2. *NBIM should consider further formalising and documenting meetings with external managers to strengthen documentation that relevant ESG-related topics have been covered.*
3. *NBIM should consider either including unlisted real estate in [the annual report on responsible investment for the GPFG] or clarifying that this topic is covered by the annual report on real estate investments."*

The Supervisory Council took note of the report's conclusions and expressed an expectation that the Executive Board would follow up the report's recommendations and return to the Council with comments. The Board has duly responded to the report.

On the first recommendation, the Board notes that *"the division of duties with management does not entail continuous monitoring of the operational design of internal working processes by the Board. Internal Audit does, however, conduct regular audits of responsible investment, most recently in 2016. The conclusion from 2016 was that NBIM's internal procedures and processes provide for good management of the various instruments for responsible investment. However, like the report from the assurance project, the report from Internal Audit points out that this field and practice are rapidly evolving.*

"Against this background, the Board will forward this remark to NBIM as input for its internal working processes. Responsible investment is a regular topic for review by Internal Audit, and this remark will be communicated to Internal Audit as input for these reviews."

On the second recommendation, the Board refers to a report from Internal Audit from 2017:

"Internal Audit's conclusion was that NBIM's design of internal control provides for satisfactory monitoring of external managers, including the frequency of meetings between NBIM and external managers. The aforementioned audit of responsible investment further concluded that meetings with external managers included relevant ESG issues.

"The Board therefore believes that NBIM's monitoring of external managers provides for systematic addressing of ESG issues."

On the final recommendation concerning reporting, the Board replies:

"The annual publication on responsible investment in the GPFG is important for communicating about our work on responsible investment. The Board shares the Council's view of the importance of clarity on which activities are covered by this report. The Board will therefore ask NBIM to consider clarifying that this topic is covered in the annual publication on the fund's unlisted real estate investments."

The Supervisory Council considers it important for ESG issues to be closely monitored. Reference is made to the presentation of ongoing supervisory work in this area earlier in this report. The Council took note of the Board's response.

THE EXECUTIVE BOARD'S HANDLING OF THE OBSERVATION AND EXCLUSION OF COMPANIES IN THE MANAGEMENT OF THE GPFG

The Ministry of Finance's management mandate sets out rules and limits for the management of the GPFG. In 2015, the mandate was amended such that the Ministry no longer needs to approve decisions on the observation and exclusion of companies. The Council on Ethics makes recommendations to place companies under observation or exclude them from the investment universe. These recommendations are sent to the Executive Board for a decision.

The aim of this review was to assess whether Norges Bank at an overarching level manages and controls compliance with applicable principles and guidelines. Three main issues (assessment criteria) were examined in the review:

1. Are procedures in place to ensure that the Executive Board has a sound basis for reaching decisions on observation and exclusion?
2. Does Norges Bank comply with the guidelines for observation and exclusion from the GPFG issued by the Ministry of Finance?
3. Do the Ownership Committee's mandate and work ensure adequate transparency in situations where the Executive Board reaches a decision that departs from the recommendation from the Council on Ethics?

Meetings were held with various external experts in responsible investment as part of the review.

The conclusions of the report from the Office of the Supervisory Council were largely positive. The Executive Board has established satisfactory procedures for handling the observation and exclusion of companies. Norges Bank complies with the requirements in the guidelines for observation and exclusion from the GPFG.

In cases where the Board reaches a different decision to that recommended by the Council on Ethics, this is set out in the press release. Good and adequate information on such decisions can be considered important for public confidence in the decisions and the decision-making processes. There are risks associated with decisions to observe or exclude companies. International asset managers monitor the Executive Board's decisions, because observation or exclusion could have a negative impact on the reputation – and ultimately the value – of the companies in which they are invested. Questions could be asked about whether the press releases provide sufficient information in cases where the Board reaches a different decision to that recommended by the Council on Ethics.

Against this background, it was recommended that the Executive Board discusses its reasoning in more detail in the press release when there are differences between the recommendation from the Council on Ethics and the decision from Norges Bank.

The Council endorsed the conclusions of the supervision report and resolved that it should be forwarded to the Board with a request for a response on the recommendation made.

In its reply to the Council, the Board writes: *“Norges Bank constantly considers how its communication might be further developed. The Board is positive about providing more detailed reasoning in cases where the Bank reaches a different decision to the recommendation from the Council on Ethics. The Board will attach importance to communication in these cases being sufficient for the basis for the Board's decision to be understood.”*

“The recommendations from the Council on Ethics are published at the same time as these decisions. This ensures a detailed description of the extent and severity of the norm violation in question, and of the company's complicity or responsibility.”

The Council took note of the Board's response.

THE EXECUTIVE BOARD'S FOLLOW-UP OF THE MANAGEMENT OF THE GPFG AGAINST THE OECD'S GUIDELINES FOR MULTINATIONAL ENTERPRISES

The management mandate from the Ministry of Finance sets out rules and limits for the management of the GPFG. Section 2-2 of the mandate requires the principles for responsible management issued by Norges Bank to address environmental, social and governance (ESG) issues. This is to be done in accordance with internationally recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises. The mandate requires the Bank to integrate work on responsible investment into the management of the GPFG. A good long-term return is also considered to be dependent on sustainable development, cf. Section 1-3(3) of the mandate.

The purpose of the Office of the Supervisory Council's review was to examine whether the Executive Board and NBIM comply with OECD recommendations on responsible investment, cf. Section 2-2(3) of the mandate. The OECD's Guidelines for Multinational Enterprises include recommendations for responsible business conduct in a global context. The guidelines set out voluntary principles and standards for responsible business conduct in accordance with applicable laws and internationally recognised standards.

A general risk assessment was performed as part of the review. Should doubts arise about whether Norges Bank's management of the GPFG complies with the requirements for responsible investment, this could undermine its credibility. Sound principles and processes are essential for ensuring responsible investment. The Board must be involved at an overarching level to ensure that the management of the GPFG complies with these requirements and to foster confidence that:

- the Board's principles (requirements) for responsible investment reflect the recommendations of the OECD's Guidelines for Multinational Enterprises
- responsibilities for ensuring that the management of the GPFG complies with the mandate and that operational procedures are clarified
- the Board is assured of relevant and adequate information

On the basis of this assessment, two key issues (assessment criteria) were defined:

1. Have the Executive Board and NBIM established principles that contribute adequately to compliance with the OECD's Guidelines for Multinational Enterprises? How is this reported to the Executive Board?
2. Are the guides "Due Diligence Guidance for Responsible Business Conduct" and/or "Responsible Business Conduct for Institutional Investors" used to implement the OECD's Guidelines for Multinational Enterprises?

Relevant guides to the implementation of the OECD guidelines were considered in the supervisory review. Meetings were held with third parties to gain a better understanding of how the OECD guidelines should be interpreted and how the implementation guides should be used.

The review did not identify any weaknesses in procedures and processes in this area. The Office of the Supervisory Council found that NBIM devotes considerable resources to responsible investment, and that activities in this area are focused on the development of markets and guidelines that can help companies implement the OECD guidelines.

One assessment made in the report was that it is up to NBIM to decide which guides are used in its management of the GPFG, so long as it uses recognised standards and otherwise complies with the mandate.

It was also noted that the Executive Board has established a broad set of principles for responsible investment. These principles are reflected in NBIM's policies and guidelines. There is quarterly reporting to the Board.

The supervision report makes the recommendation that the Executive Board should design the reporting on responsible investment in such a way that it lends itself to external assurance. The Council will consider at a later date whether external assurance might help further the credibility and development of this reporting.

The Council endorsed the conclusions of the supervision report and resolved that it should be forwarded to the Board with a request for a response on the recommendation made.

The Board replied:

"Work on social responsibility and responsible investment is reported on in the following publications:

- *Norges Bank's annual report*
- Norges Bank's annual report on the management of the GPFG*

"The Board's reporting on responsible investment of the GPFG in the two reports is fairly similar. Since 2014, NBIM has also published a separate report with extended information on its work on responsible investment.

"In the Bank's annual report, the reporting on responsible investment is an integral part of reporting on social responsibility. Each year, the external auditor performs an analysis of whether the draft version of this reporting complies with the requirements of Section 3-3c of the Accounting Act. As part of this work, the external auditor makes suggestions for improvements.

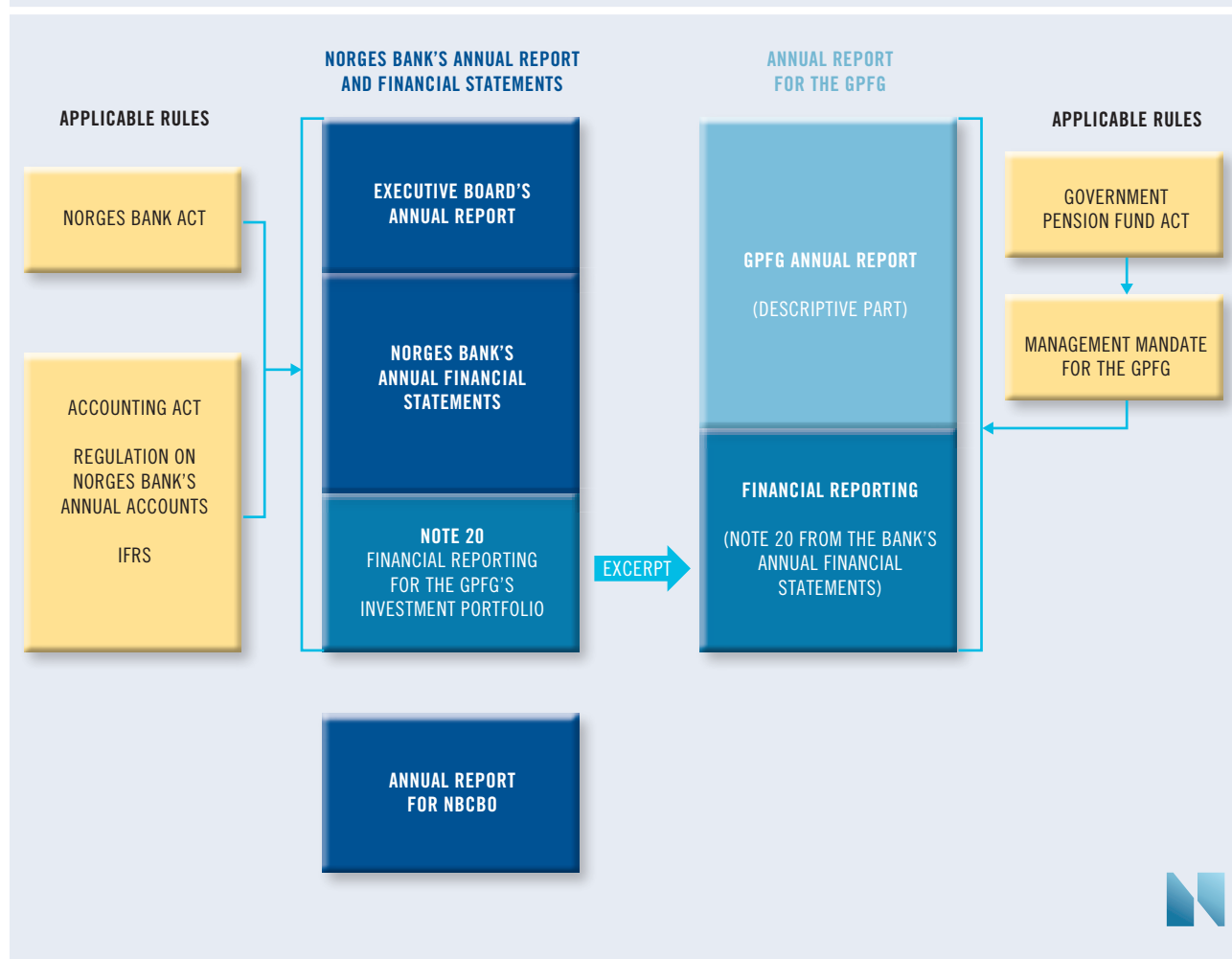
"The Council recommends that the Board designs the reporting on responsible investment in such a way that it lends itself to external assurance. The Board believes that it is the coverage of responsible investment in the Bank's annual report that should be subject to such assurance. Such external assurance of this part of the annual report could take the form of an extension of the work already done on obtaining an external opinion. The Board is open to such a change.

"Responsible investment is also discussed in Norges Bank's annual reporting on the management of the GPFG. The annual report on the management of the GPFG must meet the requirements for responsible investment in the mandate issued to the Bank by the Ministry of Finance.

"The separate publication on responsible investment contains extended information and aims to show the breadth of the Bank's work. This publication is tailored to the need to provide detailed information for various stakeholders.

"The Board is open to the introduction of external assurance in this area."

The Council took note of the Board's response and will monitor work on further developing reporting in this area.

FIGURE 8 NORGES BANK'S ANNUAL REPORT

CHAPTER 8

NORGES BANK'S ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2018

FRAMEWORK AND PROCESS FOR NORGES BANK'S FINANCIAL REPORTING

The key provisions on Norges Bank's financial reporting are set out in Section 30 of the Norges Bank Act: *"Each year the Executive Board shall prepare an annual report and accounts for the year. The annual accounts are adopted by the Supervisory Council. Norges Bank has a statutory obligation to keep accounts in accordance with the Accounting Act and the Bookkeeping Act."*

The Bank's annual financial statements and the Board's annual report are prepared in accordance with the Accounting Act's rules for large enterprises and the regulation on the Bank's annual financial statements. This regulation requires the Bank's financial reporting to comply with International Financial Reporting Standards (IFRS)⁶² and contains special requirements for the presentation of the GPFG and subsidiaries.

Norges Bank's annual financial statements incorporate the financial reporting on the management of the GPFG. The investment portfolio under management corresponds at all times to the balance on a krone account shown as a liability in Norges Bank's balance sheet. Management costs and the management fee approved by the Ministry of Finance are included in the financial reporting. The management results are also presented in notes to the financial statements. Requirements for the content of financial reporting are set out in the management mandate for the GPFG. A separate annual report on the management of the GPFG is published with excerpts from Norges Bank's annual financial statements. The Bank is also to report quarterly on changes in value, results and risk, and utilisation of the limits in the mandate for the GPFG from the Ministry of Finance.

Figure 8 shows the relationship between these annual reports and the rules that apply to them.

The annual report, the audited annual financial statements, the auditor's report and the Council's decision to adopt the financial statements are sent to the Ministry of Finance for submission to the King in Council and communication to

the Storting.⁶³ All financial reporting is published on the Bank's website. Requirements for the public disclosure of information on the management of the GPFG are set out in the mandate.⁶⁴

The external auditor's work and reporting on Norges Bank's financial statements provide assurance for the Supervisory Council that sound internal procedures have been established in the operational areas, and that the financial statements presented comply with applicable rules.

In the Council's opinion, the Bank submits its reports in accordance with applicable rules and is open about its activities. The Accounting Act's requirements for reporting on social responsibility apply to Norges Bank.⁶⁵ Information on social responsibility is provided in Norges Bank's annual report and financial statements for 2018. Given the public interest in the Bank's operations, the Council has emphasised the importance of the Board paying attention to this area.

CONSIDERATION OF THE ANNUAL FINANCIAL STATEMENTS AND REPORTING FOR 2018

Norges Bank's annual report and annual financial statements for 2018 were approved by the Executive Board on 6 February 2019. The annual report on the management of the GPFG was approved at the same time.

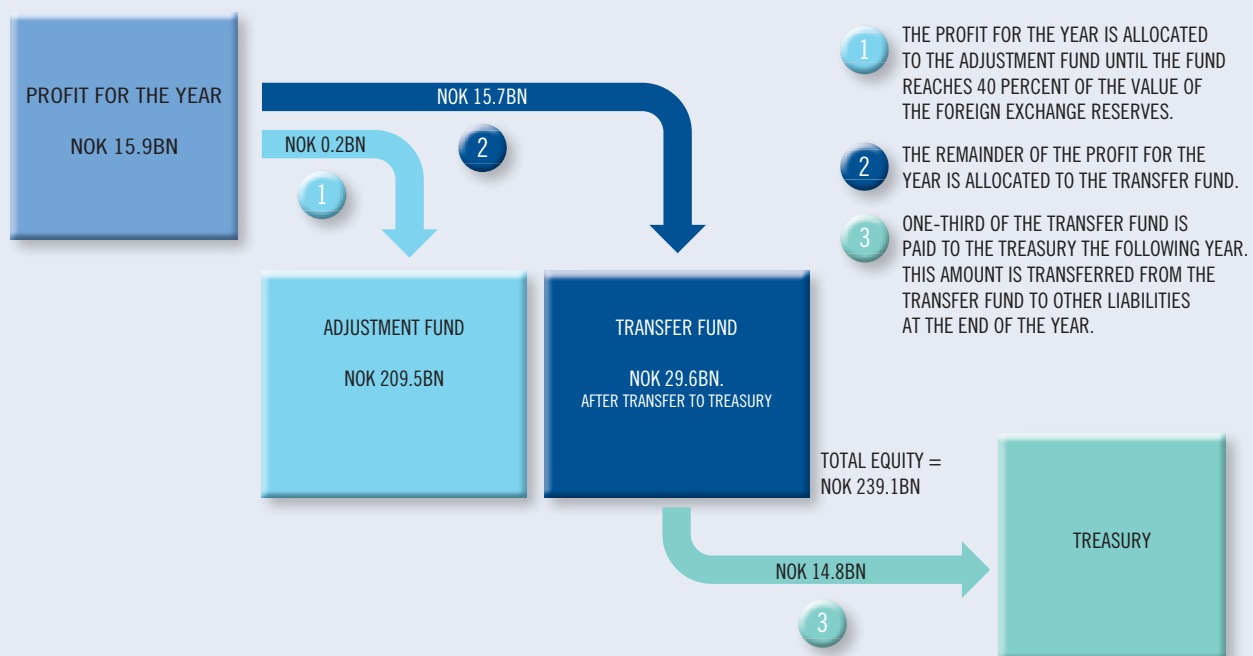
The annual report, annual financial statements and annual report on the management of the GPFG were considered at the Supervisory Council's meeting of 26 February 2019. The Council adopted the annual financial statements and the distribution of comprehensive income proposed by the Board. The Council also took note of the report on the management of the GPFG in 2018, including the Board's assessment of the results.

⁶³ Cf. Norges Bank Act, Section 30, third paragraph.

⁶⁴ Management Mandate for the Government Pension Fund Global, Chapter 6: "Public reporting".

⁶⁵ Section 3-3c of the Accounting Act requires the Bank to account for what it has done to integrate human rights, labour rights and social, environmental and anticorruption issues.

⁶² As issued since 2001 by the International Accounting Standards Board (IASB).

FIGURE 9 EQUITY MECHANISM. ALLOCATION OF NORGE BANK'S PROFIT FOR THE YEAR

* IF THE ADJUSTMENT FUND FALLS BELOW 25 PERCENT OF THE VALUE OF THE FOREIGN EXCHANGE RESERVES, THE WHOLE OF THE TRANSFER FUND IS TO BE TRANSFERRED BACK TO THE ADJUSTMENT FUND.

** THE VALUE OF THE FOREIGN EXCHANGE RESERVES IS ADJUSTED FOR OTHER FOREIGN RECEIVABLES/LIABILITIES.



The Council passed the following resolution at its meeting of 26 February 2019:

- *The Supervisory Council takes note of the Annual Report of the Executive Board for 2018.*
- *The Supervisory Council takes note of the auditor's report and adopts Norges Bank's financial statements for 2018.*
- *In accordance with the guidelines, the total comprehensive income of NOK 15.9bn is to be transferred as follows: NOK 0.2bn to the Adjustment Fund and NOK 15.7bn to the Transfer Fund.*
- *From the Transfer Fund, one-third, or NOK 14.8bn, will be transferred to the Treasury.*

The allocation of the Bank's profit for the year and transfers to the Treasury are illustrated in Figure 9.

The Bank's income statement for 2018 shows a profit of NOK 15.9bn (2017: NOK 27.7bn). Based on the guidelines for the distribution of Norges Bank's income, NOK 14.8bn is to be transferred to the Treasury, leaving the Bank with equity of NOK 239.1bn.

Under Section 30 of the Norges Bank Act, the King lays down guidelines for provisions and allocations of the Bank's net profit, cf. the Council's resolution presented above.⁶⁶ Decisions on transfers from Norges Bank to the government must be approved by the Storting and are carried out in the first quarter of the following year. The transfer from the Transfer Fund to the Treasury for 2017 amounted to NOK 14.3bn.

Total operating expenses including management costs for the GPFG came to NOK 5,696m.⁶⁷ Expenditure and the

Council's oversight of expenditure in 2018 are discussed later in this report.

Norges Bank's balance sheet showed total assets of NOK 8,851.1bn on 31 December 2018, consisting of both assets relating to central banking and assets under management in the GPFG. The balance sheet total excluding the GPFG was NOK 599.7m. Equity after transfers to the Treasury amounted to NOK 239.1bn and comprised an Adjustment Fund and a Transfer Fund. The Adjustment Fund consists of restricted equity, and the Transfer Fund is the basis for transfers to the Treasury.

The composition of Norges Bank's balance sheet at 31 December 2018 including and excluding the GPFG is shown in Figures 10 and 11.

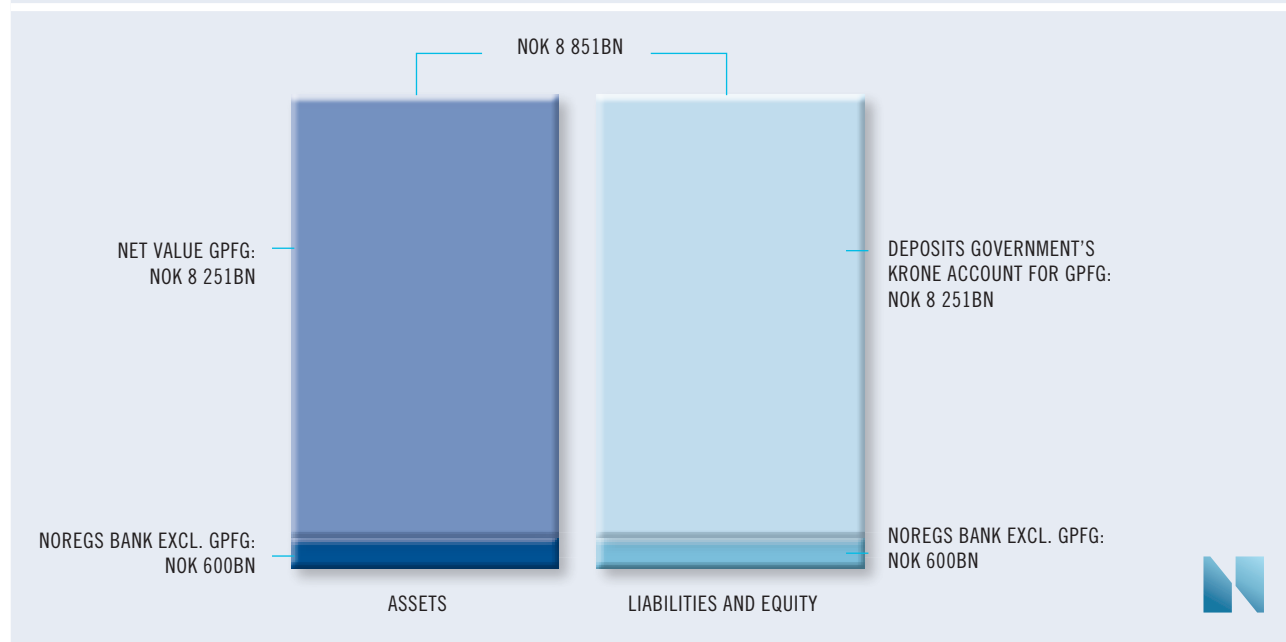
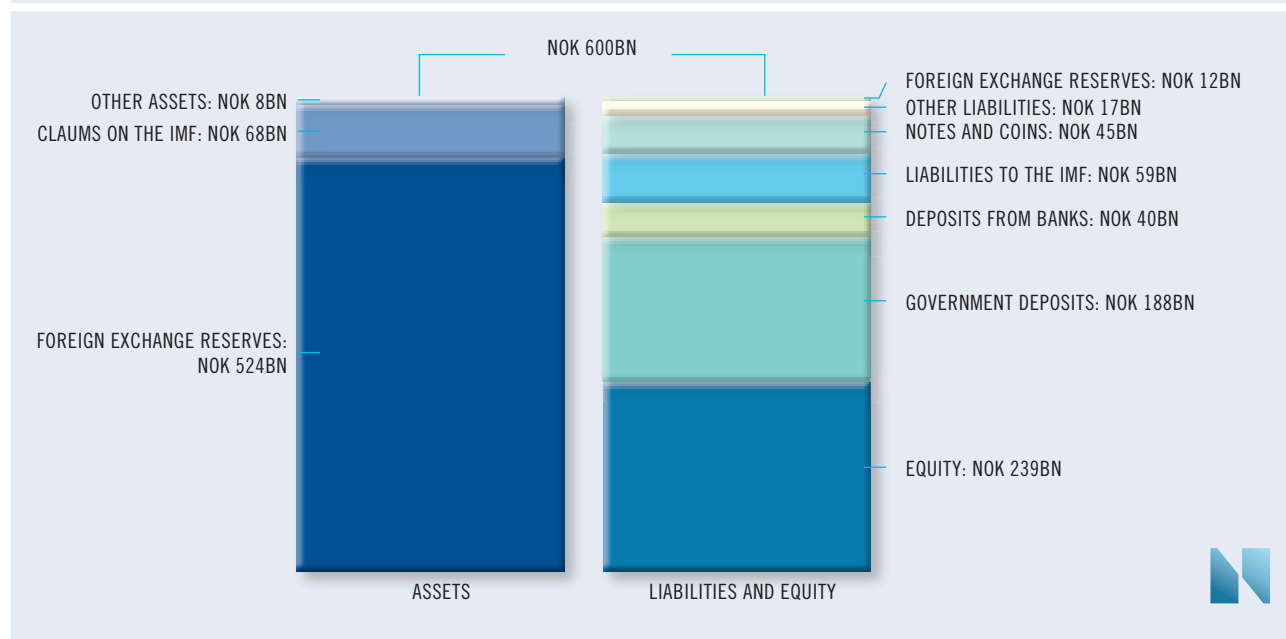
The market value of the krone deposit for the GPFG in the Bank's balance sheet was NOK 8,256bn at the end of 2018 after deducting the management fee due. This is NOK 232bn less than at the end of 2017. The GPFG's market value broke down into NOK 5,477bn (66.3 percent) in equities, NOK 2,533bn (30.7 percent) in fixed income and NOK 246bn (3.0 percent) in unlisted real estate. The decrease in market value during the year is a result of a negative return before management costs of NOK 485bn, while changes in the krone exchange rate boosted the value of the GPFG by NOK 224bn and there were net inflows from the government of NOK 33.8bn. 2018 was the first year with net inflows into the fund since 2015.

The management fee for 2018 including fixed fees for external managers was NOK 3,872m (2017: NOK 3,804m), or 4.6 basis points of average assets under management during the year (2017: 4.8 basis points). The limit approved by the Ministry of Finance for 2018 was 7.0 basis points. The Ministry also covers performance-based fees to external managers, which amounted to NOK 673m in 2018.

Total management costs amounted to NOK 4,544m (2017: NOK 4,728m). Under Section 5-1 of the management mandate for the GPFG, total costs are to be drawn from the krone account before the net return is transferred to it. Further details can be found in the information on holdings and results in Norges Bank's annual report and financial

⁶⁶ Guidelines issued by the King in Council on 7 February 1986 and most recently amended by Royal Decree on 6 December 2002. For further information, see the statement of changes in equity and information on accounting policies in Norges Bank's annual report and financial statements for 2018.

⁶⁷ This figure includes all costs for the Supervisory Council's activities, which amounted to NOK 45.4m. See further discussion in Chapter 11 of this report.

FIGURE 10 COMPOSITION OF NORGES BANK'S BALANCE SHEET**FIGURE 11** COMPOSITION OF NORGES BANK'S BALANCE SHEET EXCLUDING THE GPFG

statements and the report on the management of the GPFG in 2018.

The Executive Board is to provide an annual assessment of the results achieved.⁶⁸ This assessment is included in Norges Bank's annual report on the management of the GPFG. For 2018, the Board notes that performance was weak. The return for the year was 0.3 percent less than that on the benchmark index. The allocation to equities has increased over time and was 66.3 percent of total investments at the end of the year. The return on equities is therefore now more important for overall performance than in previous years. The contributions reported for the main strategies – fund allocation, security selection and asset management – show that they all contributed to this negative relative return. The negative return on equities of 9.5 percent was not cancelled out by the positive returns on the other portfolios.

In its assessment, the Executive Board emphasises the importance of assessing performance over time. The size of the GPFG may make it more challenging in the future to deliver excess returns at the percentage rates achieved historically.

The Council has taken note of the Board's statement that experience of the different strategies used in the management of the GPFG will provide an important part of the basis for work on the next strategy plan, which will run from 2020. The Council also considers it important for the GPFG to be managed with a long investment horizon. Strategies for the management of the fund need to be pursued over the long term, and there will be risks associated with changes based on annual returns.

The Council has also taken note of the presentation of the Bank's operations and results in the Executive Board's annual report for 2018. The Council believes that the Board's annual report and the Bank's annual financial statements provide good and adequate information on its activities.

THE AUDITOR'S REPORTING ON THE ANNUAL FINANCIAL STATEMENTS FOR 2018

Deloitte AS audits Norges Bank's annual financial statements and the financial reporting for the GPFG's investment portfolio included in a note to the financial statements.

The Supervisory Council took note of the external auditor's audit plan for 2018 for Norges Bank including the GPFG before audit work began. The auditor's assessment of the risk of material errors in the financial statements takes account of the knowledge it has built up about Norges Bank's operations, procedures and processes, and the outside world's expectations of quality and transparency in the reporting.

As part of the Council's consideration of the Bank's financial statements for 2018, the external auditor provided information on the audit processes carried out. The Council received and took note of a management letter providing information on key points considered in connection with the financial reporting.

The Council has received two audit reports from Deloitte AS on Norges Bank's annual financial reporting: "Independent auditor's report on the audit of Norges Bank's annual financial statements" and "Independent auditor's report on the audit of the financial reporting for the management of the Government Pension Fund Global".

When it comes to Norges Bank's annual financial statements, the auditor concluded:

⁶⁸ Cf. *Management Mandate for the Government Pension Fund Global*, Section 6-2.

“Opinion

“We have audited the financial statements of Norges Bank which comprise the balance sheet as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

“In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the regulation concerning annual financial reporting for Norges Bank. The regulation requires the financial statements for Norges Bank to be prepared in accordance with International Financial Reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including subsidiaries being part of the investment portfolio.”

The auditor's opinion in the report on the financial reporting for the GPFG's investment portfolio is worded similarly and is also positive.

In the audit reports, key matters that, in the opinion of the auditor, were most important in the audit of the annual financial statements for 2018 are described, and risks are assessed. The auditor attached particular importance to the following areas: “Management of the equity and fixed-income portfolios in the foreign exchange reserves and the Government Pension Fund Global, and the petroleum buffer portfolio”, “Notes and coins in circulation”, “Valuation of investments in unlisted real estate, Government Pension Fund Global” and “Risk and return disclosures, Government Pension Fund Global”. Separate conclusions are not reached for each of these areas.

Review reports were also provided on a limited review of the financial reporting for the GPFG for each of the first three quarters of the year. Work on these reports is based on the international standard on review engagements for interim financial information.

The Council has taken note of the management letter, the two audit reports and the quarterly review reports from Deloitte AS. Reference is also made to Norges Bank's annual report and financial statements and the reporting on the management of the GPFG for 2018.

Where subsidiaries in real estate management have appointed their own auditor, the independent auditor's report is submitted directly to the board of each company. These reports are not considered by the Council.

CHAPTER 9

NORGES BANK'S BUDGET AND EXPENDITURE

BUDGET FRAMEWORK, BUDGET RULES AND FINANCIAL RULES

Norges Bank's budget is not included in the Storting's consideration of the government budget. Like many other central banks, Norges Bank has a budgetary independence that does not apply in other parts of the government sector. This independence promotes impartiality in the conduct of monetary policy and pursuit of financial stability, and is therefore important for the Executive Board's freedom of action. This freedom demands strict budget discipline and close monitoring of expenditure.⁶⁹

The Norges Bank Act⁷⁰ requires the Executive Board each year to prepare a draft budget for the coming financial year. The budget is approved by the Supervisory Council and communicated to the Ministry of Finance.

The Council has issued budget rules with general principles for financial management at Norges Bank.⁷¹ These principles also cover the management of the GPFG. The rules set out general guidelines and assumptions for budget resolutions.

One principle in the budget rules is that the annual resolution covers the whole of Norges Bank's activities. In the budget process, the Council ensures that there is a sufficient financial basis for Norges Bank's duties and operations. At an overall level, the criteria and assumptions for budgeting are to be consistent across the whole of the bank.

When considering the annual budgets and annual financial reporting, the Council makes its own assessments and may request additional information from the Executive Board.

Based on the budget rules, the Executive Board has issued additional financial rules for Norges Bank with principles for financial management and the budget process.⁷²

In response to previous comments from the Council, the rules now specify that the Board is to make cost-effective and responsible use of the Bank's resources, with requirements for external cost benchmarking and cost-benefit analyses.

The Ministry of Finance sets a limit for the reimbursement of management costs as a percentage of assets under management in the GPFG. This is in keeping with the management mandate for the GPFG.⁷³ The Bank is reimbursed only for actual costs incurred up to that limit. The Ministry's approval is based on the budget estimate submitted by the Bank, which includes a proposed upper limit. Fees paid to external managers for excess return generated are reimbursed outside this limit. Within the limit, therefore, Norges Bank has no financial risk.

Under the budget rules, the Executive Board is responsible for activities being performed in such a way that targets are achieved within the financial constraints set out in the budget resolution. The management of the GPFG is also to be performed cost-effectively and in such a way that Norges Bank does not incur costs in excess of the limit for the reimbursement of costs approved by the Ministry of Finance.

FOLLOW-UP OF THE BUDGET RESOLUTION FOR 2018 AND ASSESSMENT OF EXPENDITURE

COMMENTS FROM THE CONSIDERATION OF THE BUDGET FOR 2018

In connection with its resolution on the budget for 2018, the Supervisory Council had a number of comments on the Executive Board's proposed budget. These deliberations are described in the minutes of the meeting:⁷⁴

⁶⁹ Report to the Storting No. 7 (2018–2019), Section 3.5.5. Cf. also the discussion in the report NOU 2017:13.

⁷⁰ Norges Bank Act, Section 29.

⁷¹ Adopted by the Supervisory Council on 15 November 2012. Last amended on 5 November 2015.

⁷² Issued by the Executive Board on 21 November 2012 and last amended on 22 November 2017.

⁷³ Management Mandate for the Government Pension Fund Global, Section 5-1: "By 1 December each year, the Bank shall send the Ministry a substantiated proposal for a limit on the costs for the management of the investment portfolio based on estimates of the management costs for the following year.

"Each year, the Ministry of Finance sets an upper limit for management costs as a proportion of assets under management."

⁷⁴ At the Council's meeting of 14 December 2017. Minutes available at: <https://www.norges-bank.no/Om-Norges-Bank/Organisering-og-styring/Representantskapet/Protokollar-fra-mote-i-representantskapet/>.

The Council noted that the budget is to increase by around 11 percent from 2017 to 2018. Reference is made to the comments of the Storting's Standing Committee on Finance and Economic Affairs in Recommendation 326 S (2015–2016):

“The Committee notes that the fund's management costs measured in kroner have increased over time and are considerable in absolute terms. It is therefore important for there to be regular assessments of how the fund's management can be made more cost-effective, and the Committee has a clear expectation that economies of scale could be realised on account of the fund's ever greater value and scope.

The Council has issued budget rules for Norges Bank which attach importance to the use of cost benchmarking. The Council noted that the costs presented for the management of the GPFG in 2018 cannot be compared directly with the benchmark, partly because the distinction between active and passive management is unclear. To ensure adequate cost awareness, the Council is keen for relevant benchmarks to be used to assess developments in expenditure.

The Council noted that, in the proposed budget, the Bank describes extensive measures to further develop work on IT security. This high priority ties in closely with previous risk reports. At the same time, the Council noted that the Executive Board is planning the development of expertise and infrastructure for IT security in three different parts of the Bank.

The Council believes that it is appropriate to take a holistic approach to Bank-wide functions in order to benefit from economies of scale and ensure sufficient expertise. The Council underlined the importance of the Board finding solutions for IT security that cover the entire Bank's needs cost-effectively and appropriately.”

Reference is also made to the budget resolution and discussion in Document No. 9 (2017–2018). These considerations provided a basis for the Council's follow-up of Norges Bank's budget reporting on expenditure in 2018.

ASSESSMENT OF EXPENDITURE IN 2018

The Board summarises the status of expenditure at Norges Bank as a whole as at the end of June and December. The Council also monitors more detailed descriptions of expenditure in management reports prepared quarterly by NBIM and biannually by NBCBO.

In the status reports for the first half of the year, the Council noted that actual expenditure and the forecast for the year were well within the approved budget.

The reporting at year-end covers expenditure relative to the approved budget for Norges Bank's total operating revenue, operating expenses and capital expenditure. Reallocations and deviations from the budget are discussed. In accordance with the budget rules, there is also an account of the results achieved relative to the assumptions in the proposed budget. Information is provided on the status of the implementation of action plans and achievement of targets, together with an assessment of the risk outlook.

Operating expenses totalled NOK 4,978m in 2018, of which NOK 4,544m related to the management of the GPFG. Including the fee for the management of the GPFG but excluding the Supervisory Council's costs, there was an operating loss of NOK 981m, which is NOK 36m less than budgeted. Operating expenses for the management of the GPFG excluding performance-related fees to external managers were NOK 576m less than budgeted. The share of the GPFG managed by external managers was reduced from 5.3 to 3.9 percent during the year.

The Governor briefed the Council on spending against plans and provided additional information on the reversal of financial tax, lower personnel costs, lower use of consultants than expected (to some extent due to the upgrading of the IT portfolio) and delays to the work on office investments in New York and London.

Capital expenditure on expanding the offices in New York and London was slightly below budget in 2018, and account has been taken of the continuation of these projects in the budget for 2019. Investments at NBCBO span a portfolio of multi-year projects relating mainly to buildings, security and IT development.

The reporting also includes the status of operating expenses at wholly owned operating companies and wholly owned holding companies involved in the management of the GPFG's real estate investments. The total budget approved for operating expenses at the operating companies in 2018 was NOK 100m. Actual costs amounted to NOK 83m, which is in line with the year before but NOK 17m below budget.

The Council has taken note of the Governor's briefings and the Executive Board's half-yearly status reports and report on total expenditure at Norges Bank in 2018, and approved the operating accounts. The Council also took note of management reporting from NBIM and NBCBO during the year and at the year-end. The Board managed expenditure in 2018 within the approved budget and reported in accordance with the budget rules for Norges Bank.

THE SUPERVISORY COUNCIL'S RESOLUTION ON NORGES BANK'S BUDGET FOR 2019

NORGES BANK'S BUDGET FOR 2019

In preparation for the Council's consideration of the Executive Board's proposed budget for 2019, assessments were made of whether the budget rules had been followed. At the same time, the Office of the Supervisory Council had a dialogue with the Bank on compliance with the requirements.

Norges Bank's profit/loss for the year is dominated by the return on the foreign exchange reserves. In the annual financial statements, this return is presented as net income from financial instruments. Due to unpredictable fluctuations in the return on the foreign exchange reserves, partly as a result of uncertainty about exchange rate movements, this revenue is not included in the budget. This is also in keeping with the budget regulation. The Bank therefore budgets a net operating loss.

The approved budget for 2019 shows an overall operating loss of NOK 968m. Operating expenses are budgeted at NOK 5,851m, which is NOK 200m more than the actual expenses reported for 2018. Shared costs are eliminated in the consolidated budget for Norges Bank. Expenses for managing the GPFG are budgeted at NOK 4,741m, which

is an increase of NOK 197m from reported management costs in 2018, but also NOK 529m below the limit and budget for 2018.

The total operating expenses budgeted for 2019 are 5 percent below the budget for 2018. In response to questions from the Council at the meeting, the Bank's executive management provided information on uncertain and variable items, economies of scale in the Bank's operations, strategic choices and cost benchmarking. The decrease in budgeted expenditure is due mainly to strategic changes such as reduced use of external managers for the GPFG, fewer employees, lower costs for outsourced IT services, and reduced costs for consulting and analytical services.

The Ministry of Finance's letter⁷⁵ setting out its expectations for cost control and its limit for the management fee for the GPFG was available when the budget was approved. The Ministry has set a limit for the reimbursement of management costs in 2019 of 7.0 basis points of the GPFG's average market value during the year. The Ministry writes that it has noted that management costs for the GPFG have decreased over time as a share of assets under management. This is in keeping with the express expectation of the Standing Committee on Finance and Economic Affairs that economies of scale could be realised on account of the GPFG's ever greater value and scope, cf. Recommendation 370 S (2017–2018). The Supervisory Council attaches great importance to costs when considering the budget.

The budget for Norges Bank for 2019 was approved on 13 December 2018. The resolution is presented in Figure 12. A letter on the budget resolution was sent to the Ministry of Finance on 14 December 2018.

The budget assumes 924 permanent employees at Norges Bank at the end of 2019: 355 at NBCBO and 569 at NBIM. At the end of 2018, the Bank had 953 permanent employees, of whom 601 were at NBIM. The Council does not pass resolutions on the number of employees at the Bank.

⁷⁵ Letter from the Ministry of Finance dated 16 November 2018.

FIGURE 12 BUDGET RESOLUTION FOR NORGES BANK FOR 2019

In accordance with the Norges Bank Act and the budget rules for Norges Bank, the Supervisory Council has considered the Executive Board's proposed budget for Norges Bank for 2019.

With reference to the letter from the Ministry of Finance dated 16 December 2018 on the management fee for the GPFG for 2019, the Supervisory Council hereby approves the following budget for Norges Bank for 2019 (in millions of NOK):

Management fee, GPFG	4741
Other operating revenue	141
Total operating revenue, Norges Bank	4882
Personnel expenses, NBCBO	525
Other operating expenses, NBCBO	607
Depreciation, amortisation and impairment losses, NBCBO	136
Personnel expenses, NBIM	1430
Other operating expenses, NBIM	2590
Depreciation, amortisation and impairment losses, NBIM	145
Performance-based fees to external managers, NBIM	640
Elimination of shared costs passed on by NBCBO to NBIM*	-214
Elimination of shared costs passed on by NBCBO to SC/OSC	-8
Total operating expenses	5851
Operating loss, Norges Bank	-968

* Comprises shared costs passed on from NBCBO to NBIM of NOK 153m, rent of NOK 26m, and expenses passed on from the Supervisory Council (SC) and the Office of the Supervisory Council (OSC) to NBIM of NOK 35m, making a total of NOK 214m.

New investments are budgeted at NOK 45m for NBCBO and NOK 37m for NBIM. Previously approved and ongoing investments amount to NOK 50m for NBCBO and NOK 92m for NBIM.

The Supervisory Council approves a budget of NOK 115m for operating expenses at operating companies in the GPFG's real estate management.

The Council's budget for supervision and audit costs was approved in a separate resolution at its meeting on 13 December 2018.

Norges Bank's overall budget will be submitted to the Ministry of Finance in accordance with Section 29 of the Norges Bank Act.

The budget shows total operating revenue of NOK 4,882m. The management fee for the GPFG is NOK 4,741m, while the remaining NOK 141m comprises other operating revenue, mainly from services rendered to banks and the government, and rent from external tenants.

A number of items in the budget are associated with considerable uncertainty. The budget for 2019 is based on exchange rates at 30 June 2018.⁷⁶ When it comes to investment management, the uncertainty relates primarily to movements in exchange rates, assets under management and returns. These are factors that are outside the Bank's ordinary budgetary control. The size and mix of assets under management will impact on custodian costs, among others. A substantial part of the fees paid to external managers and internal remuneration at NBIM is tied to the returns generated over time.

The Supervisory Council's budget rules for Norges Bank attach importance to the use of relevant cost benchmarking. To ensure good cost awareness, the Council is keen for benchmarking to be used to assess developments in expenditure. The Executive Board discusses external cost comparisons in its proposed budget. Norges Bank participated along with 42 other central banks in an external comparison carried out by BIS Central Bank Governance Group focusing on full-time equivalent employees (FTEs). Based on input from these central banks, the BIS has put considerable effort into an attempt to improve the basis for relevant benchmarking. Calculations performed by the BIS based on its surveys suggest that Norges Bank's expenditure is in line with comparable central banks.

Canadian company CEM Benchmarking Inc. prepares an annual report on behalf of the Ministry of Finance comparing management costs for the GPFG with those for more than 300 other funds. A peer group for the GPFG has been drawn from this sample, comprising the largest funds in the survey. The comparison for 2017, the most recent year with available data, shows that the GPFG has the lowest costs in its peer group measured as a percentage

of assets under management. The GPFG's costs are 11 basis points below the peer group average in the 2017 report.⁷⁷

On behalf of the Ministry of Finance, McKinsey prepared a report in autumn 2017 on costs in the management of the GPFG which included a comparison of costs with other funds. The analysis was based on data from CEM, but costs were measured against a peer group consisting of nine of the largest funds. The report showed that the management of the GPFG is cost-effective compared to these funds. For 2017, CEM expanded its report with an alternative benchmarking methodology corresponding to that used in the McKinsey report. This comparison finds that the GPFG's costs were 3.9 basis points lower than the peer group average in 2017.

In its consideration of previous years' budgets, the Supervisory Council has asked Norges Bank to carry out independent analysis and cost benchmarking of investment management in addition to referring to the CEM report. The Council has noted that the CEM report has been improved and now provides a more relevant basis for comparisons. It will continue to be important for the Council to monitor developments in costs through various analyses.

The Council has noted that the Executive Board's proposed budget describes extensive measures to ensure that Norges Bank's IT systems provide for secure and cost-effective operations. Major strategic programmes to this end are under way in both operational areas and will continue in 2019. The further development and strengthening of IT security are an integral part of these projects. The Council underlined the importance of the Board finding solutions that cover the entire Bank's needs cost-effectively and appropriately.

The Ministry of Finance has set a limit for management costs for 2019 of 7.0 basis points of the GPFG's average market value.⁷⁸ This is the same level as for 2018. The limit is set for one year at a time and is based on current investment strategy. The safety margin between this limit

⁷⁶ As per the Executive Board's financial rules.

⁷⁷ Since 2012, the CEM survey has shown that costs for the management of the GPFG have been lower than for the peer group. The CEM report for 2017 was published by the Ministry of Finance on 27 February 2019.

⁷⁸ The average is calculated on the basis of the market value of the GPFG's portfolio measured in NOK at the end of each month during the calendar year.

TABLE 1 INVESTMENT BUDGET

PLANNED INVESTMENTS	PREVIOUSLY APPROVED AND ONGOING INVESTMENTS	NEW INVESTMENTS APPROVED FROM 2019	TOTAL AVAILABLE	FORECAST USAGE IN 2019
NBCBO	50	45	94	78
NBIM	92	37	129	129
Total	142	82	223	207

and the budget for 2019 is 2.3 basis points. The Ministry pointed out that this is larger than the safety margin for 2018, but argued that it needs to be set in such a way that Norges Bank has sufficient flexibility to implement its management strategy. New investments are estimated at NOK 82m in the approved budget. Including previously approved and ongoing investments brought forward to 2019, the Bank's total budget for capital expenditure amounts to NOK 223m. See the breakdown in Table 1.

The Council pays close attention to the Board's cost management and the expectations expressed by the Storting and the Ministry of Finance. It looks positively on the active inclusion of cost benchmarking in the budget process. Changes to operational strategies and the management of costs are also monitored continuously through supervision.

BUDGET FOR SUBSIDIARIES IN THE GPFG'S REAL ESTATE MANAGEMENT

Under the budget rules, a budget for management costs at subsidiaries that are part of the management of the GPFG's real estate investments is to be submitted to the Council. The cost limit from the Ministry of Finance also includes these management costs. Other operating expenses at wholly and partly owned real estate companies related to ongoing maintenance and the operation of buildings and leases are not covered by the budget process. These expenses are charged directly to the companies' own accounts and offset against returns generated.

The approved budget of NOK 115m for management costs at operational subsidiaries in real estate management is NOK 15m higher than both the budget for 2018 and actual costs in 2018. The budget assumes 24 employees at the subsidiaries.

BUDGET FOR THE COUNCIL'S OWN ACTIVITIES IN 2019

At its meeting of 13 December 2018, Norges Bank's Supervisory Council also approved a budget for 2019 for its own activities, covering the Council itself, the Office of the Supervisory Council (including the use of external experts) and the external auditor's financial audit and assurance services. Expected expenditure in 2019 is estimated at NOK 50.4m. See also the discussion of the Council's activities and expenditure in 2018 in Table 2 in Section 11 below.

The budget for the Supervisory Council itself is NOK 4.3m. This covers all fixed and variable fees and meeting costs based on the set schedule for 2019. It also covers costs for seminars and study trips currently being planned.

The Office of the Supervisory Council has eight FTEs at its disposal. Its budget of NOK 27.4m covers salary, personnel and pension costs and external training amounting to NOK 14.4m. Rent and shared costs passed on under the service agreement with Norges Bank come to NOK 8m. Based on the supervision plan for 2019, NOK 5m has been budgeted for specialist services from various experts.

Audit fees of NOK 15.7m are budgeted. This covers the financial auditing of Norges Bank's financial statements. Of this, NOK 1.9m relates to the limited review of the quarterly financial reporting for the GPFG. A further NOK 3.0m has been budgeted as a limit for the Office of the Supervisory Council's use of Deloitte AS for assurance projects. The external auditor's fees are based on the fixed price in the engagement agreement with Deloitte AS, adjusted in line with the agreed price index.

CHAPTER 10

PRIORITIES FOR FUTURE SUPERVISORY ACTIVITIES

The Council's priorities for its supervision in 2018 were set out in a separate chapter of last year's report, Document No. 9 (2017–2018). Supervisory reviews during the year covered Norges Bank's crisis management, the follow-up of changes to the benchmark index set by the Ministry of Finance for the management of the GPFG, and responsible investment.

October 2018 saw the publication of Report to the Storting No. 7 (2018–2019) "On a new central bank act", in which the Ministry of Finance presented the government's view of how Norges Bank and the operational management of the GPFG should be organised and governed. The white paper proposes that the Bank's operations continue largely as they are. It also clarifies expectations of what supervision entails and what the Supervisory Council's role involves. The Council looks positively on this. One key aspect of its supervision is independence of the Bank's risk framework and the Bank's management and control systems.

The Council has plans to develop its supervision and its own activities. Future focus areas will be:

Further development of control and supervision activities

- Target supervision effectively on the basis of real risks through increased insight into the Bank's operations
- Engage in dialogue with the Ministry of Finance on supervisory reviews and mandate changes

Profile and communication

- Raise awareness of the Council's role and duties among stakeholder groups
- Ensure appropriate communication internally and externally

Competence

- Increase the Council's own understanding of its duties and the Bank's activities, including introducing training programmes for new members
- Forge new and cement existing relationships with international players in central banking and investment management
- Consult experts from Norwegian and international academic institutions

The approved supervision plan for the Office of the Supervisory Council for 2019 emphasises recent and coming changes to the regulatory framework, not only the Norges Bank Act and other relevant legislation but also the mandate for the GPFG. It is also assumed that there will be changes in the markets in which the GPFG operates. Topics to be followed up especially (in supervisory reviews) are:

- *Norges Bank's external reporting:* Examine whether reporting is performed and developed in line with requirements and expectations. There is a risk that the volume of reporting is such that important information can become hard to find. There is also a risk of overlapping information and considerable expenditure on reporting beyond actual requirements in terms of both content and frequency. Excessive reporting could conflict with the internal control principles of focused and efficient operation and reliable reporting.
- *Norges Bank's internal reporting:* Perform an assessment of whether internal reporting is a useful and effective management tool for Norges Bank's governing bodies in their decision-making processes. This reporting must, as a whole, provide the right information. There is a risk if reports contain overlapping information, if the language used is difficult to understand, or if reports at the same level of the organisation have different forms and formats. Another possible risk is if internal reports build on external requirements and have not been designed, or are not suitable, for internal management reporting.
- *Compliance with laws and regulations beyond those specified in the Norges Bank Act:* Map which official requirements apply to Norges Bank in order to gain an overview of which supervisory authorities have responsibilities regarding the Bank. This will contribute to a picture of the rules and regulations beyond the Norges Bank Act with which the Council is to oversee compliance, and also help avoid duplication of supervision with different orientations and premises.
- *Targeted and cost-effective management and use of resources:* Expectations have been expressed that the Bank as a whole is to be run in such a way as to realise economies

of scale. Given the ongoing work on a new Norges Bank Act and possible organisational changes, the supervisory review will take the form of an ex post facto control and will not take in the change processes.

- As part of the supervision of the management of the GPFG, there will be assurance projects based partly on input from the Ministry of Finance. The projects will be conducted in accordance with international assurance standards,⁷⁹ and the reports will be published when submitted to the Ministry of Finance.
- *A review of Norges Bank's framework for approving markets and government bond issuers.* The first paragraph of Section 4-10 of the management mandate for the GPFG states that the Bank must approve all markets the GPFG is invested in, and the Executive Board must approve all issuers of sovereign debt.
- *A review of Norges Bank's framework for defining and implementing internal reference portfolios, including the funding of real estate investments.* The review will look at processes, governance structure and independent responsibilities for establishing internal reference portfolios, measuring their performance, and managing and controlling the associated risks. It will also look at reporting.

The ongoing supervision of operations and compliance at Norges Bank in 2019 will focus particularly on the Executive Board's implementation of strategic choices in the governance framework and reporting.

The Council monitors developments in costs carefully and attaches great importance to overall cost-effectiveness. The follow-up of budget resolutions will be an important part of future supervisory work. A number of major projects currently under way, including strategic IT investments in both operational areas, are being followed closely. One important basis for the Council's deliberations is periodic management reporting from the Executive Board.

Norges Bank will be adopting a new strategy for the period 2020–2022. A review of the implementation of the governance model, including the organisation of administrative units, can be expected in 2019 as part of the development of the new strategy.

⁷⁹ ISAE 3000: "Assurance engagements other than audits or reviews of historical financial information".

CHAPTER 11

THE COUNCIL'S ORGANISATION AND ACTIVITIES IN 2018

THE SUPERVISORY COUNCIL'S ORGANISATION

The organisation of the Council is regulated in Section 7 of the Norges Bank Act. The Council has 15 full members and two alternate members elected by the Storting for a four-year term.⁸⁰ The alternates attend and may speak at all meetings of the Council. Elections are held every second year, alternating between the appointment of seven members and eight members.⁸¹ Members may be re-elected to serve up to 12 years in total.

The Storting elects the chair and deputy chair from among the Council's members for a two-year term. For 2018–2019, Julie Brodtkorb was appointed chair and Reidar Sandal deputy chair.

Members of the Council have a political background and broad professional expertise and experience from key areas of Norwegian society, public administration and industry. Four of the 15 full members, or 27 percent, are women. Appendix 1 to this report provides a full list of the Council's full and alternate members for the period 2018–2019, including a brief profile of each member.

THE PERMANENT COMMITTEE

The Permanent Committee is a working committee that prepares and submits recommendations for decisions on matters to be considered by the Council.⁸² It consists of the Council's chair and deputy chair and three other members elected by and from the Council's full members for a term of two years. For 2018–2019, the Committee comprises Julie Brodtkorb (chair), Reidar Sandal (deputy chair), Tormod Andreassen, Gjermund Hagesæter and Randi Øverland. The last three members and five personal alternates were elected at the Council's inaugural meeting on 18 January 2018.

A mandate for the work of the Permanent Committee is issued by the Supervisory Council. As a committee of the Supervisory Council, the Permanent Committee has the right of access to all of the Bank's affairs. The Committee has no powers to take decisions on behalf of the Council.

Minutes are taken of its meetings and approved by the chair.⁸³ At each meeting, the Committee agrees on the agenda for the next meeting of the full Council. The minutes of the Committee's meetings are circulated with the supporting documentation and set out significant discussions and briefings along with the Committee's recommendations for resolutions by the Council.

The Governor may be asked to attend meetings of the Permanent Committee. Where there is good reason, the Committee may inform the Governor of its intended recommendation. The Governor or Executive Board may raise matters and present their assessments with a view to their consideration by the Council before the Committee makes its recommendation on a resolution.

THE OFFICE OF THE SUPERVISORY COUNCIL

The Office of the Supervisory Council⁸⁴ is the Council's secretariat and in 2018 had seven staff headed by its Director. The Director is mandated to recruit and dismiss staff, set salaries and terms of employment, and perform other employer functions in accordance with labour agreements and the constraints laid down by the Council. The Council decides on the Director's remuneration and other terms of employment.

The Office reports directly to the Council, independently of both the Executive Board and the Bank's management. The Director takes part in meetings of the Council and the Permanent Committee and may bring along experts. The Office's employees have a right to attend meetings of the Supervisory Council when it is considering administrative matters concerning the Office.

The Office's activities and administrative affairs are regulated by standing instructions,⁸⁵ guidelines, supervision plans and budgets issued by the Council.⁸⁶ High priority is given to integrity in the Office's work. Its main purpose is to provide a sound basis for the Council's supervision of the Bank and to arrange technical seminars and other

⁸⁰ Cf. Norges Bank Act, Sections 7 and 9.

⁸¹ Cf. Norges Bank Act, Section 7, second paragraph.

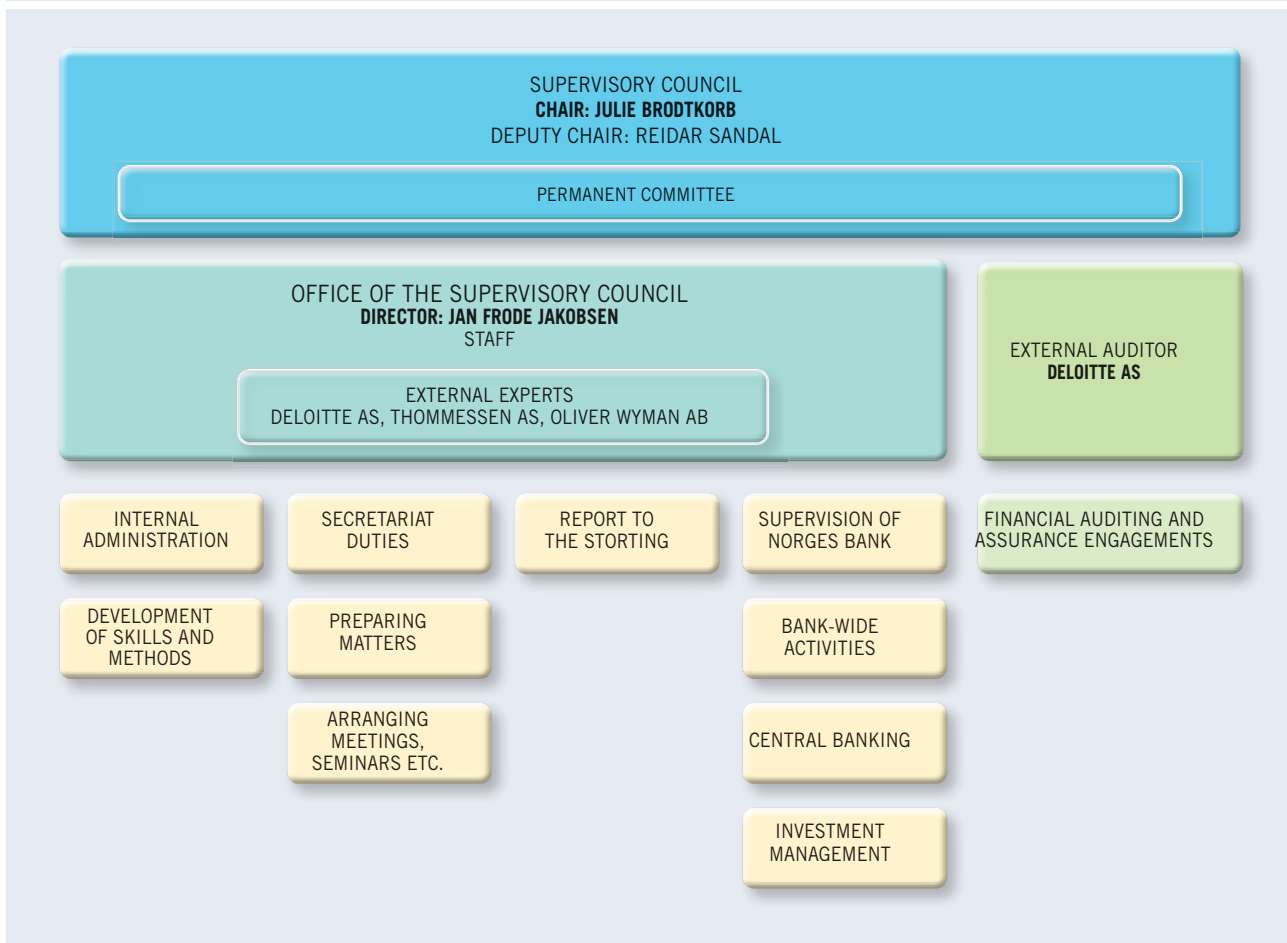
⁸² Cf. Norges Bank Act, Section 7, fourth paragraph.

⁸³ The previous system whereby minutes were approved at the Supervisory Council's meetings was altered with effect from March 2018.

⁸⁴ Cf. Norges Bank Act, Section 5, fourth paragraph.

⁸⁵ Laid down at the meeting of 8 June 2017.

⁸⁶ Discussed in Proposition to the Odelsting No. 58 (2008–2009).

FIGURE 13 THE OFFICE'S ORGANISATION AND DUTIES

activities. The Office also prepares supporting documentation and draft minutes, consultation responses, presentations and the annual report to the Storting. The Office arranges the Council's meetings, seminars and professional activities.

The Office has entered into a service agreement with Norges Bank's Corporate and Shared Services Department. The agreement covers the provision of administrative services to meet the Office's ongoing needs. This includes the use of offices and other premises, security and contingency planning, archiving, use of IT hardware, payroll and personnel services, and canteen and conference facilities. It also includes relevant services for the Supervisory Council such as arrangements for meetings, security, agreements with travel agents, and payment of fees. All use of services is paid for by the Council. The agreement helps safeguard the independent position of the Office and the Council.

The Office is to be appropriately staffed with adequate and relevant multidisciplinary expertise. Its staff have a strong insight into areas such as accountancy, finance, law, corporate governance, risk management and internal control. In addition to relevant professional expertise, considerable importance is attached to professionalism, integrity, objectivity and due care in the conduct of duties. Professional expertise is to be maintained and continuously developed. The Director may additionally hire external experts and enter into framework agreements with technical advisers within the plans and budgets approved by the Council.

Besides participating in relevant courses and conferences, the Office hosts regular meetings and technical seminars on its own account. Expert speakers from various sources are used, including business partners' international contacts and Norges Bank's operational areas. This skills building is very important both for supervisory reviews and for preparations for the Supervisory Council's work. Topics in 2018 included NBIM's strategies and organisation for equity management and real estate management, performance measurement, and the risks associated with active investment management. There was also a focus on whistleblowing, the management of IT security, block-chains and cryptocurrencies, and the ramifications of the

UK's decision to leave the EU. In addition, there was a meeting where Finanstilsynet provided information on auditor oversight and the methodology used.

The Office administers the Council's agreement with the external auditor for Norges Bank. It also co-ordinates co-operation between the external auditor and the Office of the Auditor General, especially when it comes to the supervision and auditing of the GPFG. One aim of this collaborative model is for the Office of the Auditor General to obtain information about, and build on, the auditing and supervision performed by the external auditor and the Supervisory Council. Regular liaison meetings are held.

The Office holds regular meetings with the Ministry of Finance to exchange information relevant to the supervision of the management of the GPFG. These meetings include briefings on the Council's report to the Storting, the annual supervision plan and the supervisory and audit activities performed.

The Office's organisation and duties are illustrated in Figure 13.

THE EXTERNAL AUDITOR

The Supervisory Council appoints the external auditor for Norges Bank and signs the engagement agreement. The current engagement agreement with Deloitte AS⁸⁷ has a term of six years and covers the 2016–2021 financial years. The engagement covers the auditing of the annual financial statements for Norges Bank, the financial reporting for the GPFG's investment portfolio, the annual accounts for Norges Bank's Pension Fund, and other related activities.⁸⁸ In the implementation of the audit engagement, the responsible auditor at Deloitte AS in Norway also plans the use of resources from other parts of Deloitte's international network.

The work of the external auditor is important for the Council's supervisory activities. The responsible partner at

⁸⁷ Deloitte AS in Norway is a member firm of Deloitte Touche Tohmatsu Limited (DTTL), a British company limited by guarantee.

⁸⁸ The auditing of Norges Bank's Economic Research Foundation, the Governor N. Rygg Foundation and Norges Bank Headquarters Pensioners' Foundation.

Deloitte AS attends Council meetings while relevant matters are being considered. The Office of the Supervisory Council enters into agreements with Deloitte AS on any assurance engagements in the supervision of the Bank.

In Section 2.3 of the guidelines on the Council's supervision of companies owned by Norges Bank in connection with the GPF's real estate investments,⁸⁹ the Council has stipulated that Norges Bank's external auditor should normally be appointed auditor at companies where the Bank has control over the appointment. In cases where the Bank's auditor is not chosen, the Bank is to seek to ensure that the Bank's auditor is able to obtain information and documentation directly from the company's auditor.

Deloitte companies in the countries in question have been appointed auditor of Norges Bank's real estate subsidiaries, with the exception of those in the US, which are audited by Deloitte AS in Norway.

Deloitte AS prepares two annual assurance statements on Norges Bank's work for the Ministry of Finance on the central government group account and the management of government debt. The Office of the Supervisory Council co-ordinates the exchange of information between the Bank's auditor and the Office of the Auditor General.

The annual accounts for Norges Bank's Pension Fund and associated auditor's report are submitted to the Supervisory Council for consideration. Deloitte AS submits an independent annual statement⁹⁰ on risk management and internal control to the board of Norges Bank's Pension Fund.

The Council has given permission for the external auditor to provide certain consulting services for Norges Bank subject to approval from the Office. Potential assignments are carefully assessed to avoid conflicts of interest, and such work has historically been limited in scope.

There was close dialogue between the Office and the auditor during the year, both through scheduled meetings and through ongoing contact. The Council is kept informed about progress under the annual audit plan and any issues material to the execution and scope of the audit. Deloitte AS and the Office are in regular contact to exploit potential synergies between the auditing and supervision of Norges Bank. The auditor's services are evaluated regularly against the engagement agreement entered into. Where there is a need for clarification and discussion, this is raised with the auditor directly.

EXTERNAL EXPERTS

When carrying out supervisory tasks, the need to bring in supplementary professional expertise is considered, especially when it comes to investment management, security, IT security, governance and some legal issues. These experts are drawn on at meetings and seminars, as well as in ongoing supervision and supervisory reviews, and contribute to discussion of relevant recognised practices nationally and internationally.

The Council and the Office have established effective access to additional specialist resources partly through framework agreements with the consulting firm Oliver Wyman AB⁹¹ on international investment management and the law firm Thommessen AS⁹² on legal issues. Use is also made of various advisers at Deloitte both in Norway and abroad.

Mercer AS is used for discussion of economic analyses and the follow-up of risk limits in investment management. Norwegian Computing Center (NR) assisted the Council with an evaluation of a supplier's IT security during the year. Information was also obtained from, and discussed with, other experts on special topics covered by seminars and investigations.

⁸⁹ Laid down on 5 November 2015.

⁹⁰ Submitted under the Regulation on Risk Management and Internal Control at Norges Bank issued by Finanstilsynet on 22 September 2008 and last amended with effect from 1 January 2017.

⁹¹ The agreement with Oliver Wyman AB runs for four years from 21 February 2015.

⁹² The agreement with Thommessen AS runs for four years from 1 July 2016.

ACTIVITIES AND EXPENDITURE IN 2018

MEETINGS AND MATTERS CONSIDERED

The Council held six ordinary meetings and an inaugural meeting in 2018. The Permanent Committee had six ordinary meetings.

The Council considered a total of 103 matters during the year, including the minutes of its own meetings. The procedure for reporting from the Permanent Committee's meetings has been altered. From 2018, there has been a move away from minutes, and instead a more detailed report accompanies the supporting documents for the Council's meetings, together with recommendations on the individual items. This gives the Council more up-to-date and in-depth information on the Committee's deliberations. Also sent out with the supporting documents is a memo with proposed discussion points arising from the Office of the Supervisory Council's preparations.

All in all, 72 percent of matters concerned the supervision of Norges Bank's operations. The discussions at these meetings show that issues pertaining to investment management account for a substantial part of the Council's attention in its supervisory work.

A further 15 items in the form of technical reports and other supplementary information about Norges Bank's operations were submitted, but the Council does not pass resolutions on these information items.

Figure 14 provides a breakdown of the matters considered by the Council in 2018 between Norges Bank's operations and the Council's administrative matters.

OTHER ACTIVITIES AND THE SUPERVISORY COUNCIL'S SKILLS DEVELOPMENT

In connection with the inaugural meeting, an introductory seminar was held, aimed particularly at new members. Topics were Norges Bank's organisation and its management and control structure, and the Council's supervisory and control duties.

The Council held technical seminars in connection with two of its meetings during the year. The aim of the seminars is to keep abreast of relevant fields and to spend

more time on in-depth discussion of topics covered by its supervision.

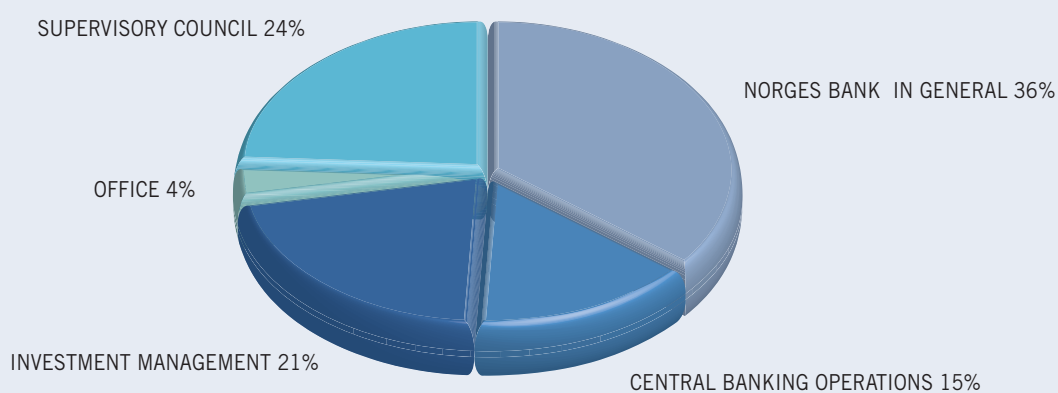
At one seminar, the topic discussed was cybersecurity. The head of strategic cybersecurity at the National Security Authority (NSM) spoke on cyber threats and the risks they pose to organisations' reputation and assets. There was also a presentation on security work at the Bank. The Council was given an insight into how the Bank is working to reduce cyber risks and other digital risks.

The other seminar was on the topic of sustainability. A representative of retailer NorgesGruppen provided information on its work on sustainability, including its goals and ambitions and transparency in its reporting. The Governor gave a briefing on the work done by the Executive Board and NBIM on responsible investment and transparency in the Bank's reporting.

During a study trip to New York, information was provided on the Bank's local operations and the markets for asset management in the US. This provided a basis for the discussion of equity management and real estate management in the GPF, and the Council was given a tour of one of the properties in the portfolio. Visiting other institutions, the Council was briefed on the supervisory activities of the Federal Reserve, the UN's Sustainable Development Goals, and diversifying risk through unlisted infrastructure. Topics such as digital marketplaces and cryptocurrencies were also covered by speeches and discussions.

The Governor and Deputy Governors provide information on topical economic issues domestically and globally at the Council's meetings. There may also be briefings on Norges Bank's technical reports, monetary policy assessments and the background to the Executive Board's interest rate decisions. These are technical briefings that are outside the Council's supervisory responsibilities, but are still useful for understanding the work and responsibilities of the Bank and the Board.

The Council attends the Governor's annual address, entitled "Economic perspectives", which covers a broad range of topics that are important for Norges Bank's economic choices. The chair of the Council welcomes

FIGURE 14 MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2018**TABLE 2** THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	BUDGET 2019	ACTUAL 2018	BUDGET 2018	ACTUAL 2017
Supervisory Council	4,319	3,849	4,190	3,106
Office of the Supervisory Council	27,391	25,451	29,501	19,654
Assurance engagements	3,000	1,021	2,350	3,620
Finansiell revisjon	15 656	15 046	15 500	14 668
Totalt	50 366	45 367	51 541	41 048

TABLE 3 THE SUPERVISORY COUNCIL FIXED FEES PAID IN 2018

FIXED ANNUAL FEES	SUPERVISORY COUNCIL	PERMANENT COMMITTEE	TOTAL PER MEMBER	TOTAL FEES
Chair	62,400	93,500	155,900	155,900
Deputy chair	41,600	62,400	104,000	104,000
Three other members of the Permanent Committee	31,200	62,400	93,600	280,800
Ten other members of the Supervisory Council	31,200		31,200	312,000
Two alternates	31,200		31,200	62,400
Total fixed fees paid				915,100

guests on behalf of Norges Bank. The speech has been made annually since 1922 (other than during the German occupation in 1941–1945) and was originally given to the Supervisory Council in connection with its annual meeting. Since 1924, representatives of the Storting, the government, the financial sector and, in more recent years, other parts of industry and society have also been invited. In 1986, the Bank's Governor at the time noted that *"in the Storting's consideration of the bill,⁹³ great importance was attached to Norges Bank's independent position and its obligations in terms of providing advice and contributing to public opinion."* The speech is a useful contribution to Norges Bank's transparency and role in providing advice and informing the public.⁹⁴

COSTS AND EXPENDITURE IN 2018

The Council approves an annual budget for its activities, including costs for the Office of the Supervisory Council, the external auditor and the use of external advisers. Reporting on expenditure is followed up by the Council. These costs are included in Norges Bank's overall budget and annual financial statements.

The Council's total expenditure in 2018 was NOK 45.4m. Table 2 gives a breakdown of this expenditure. Costs for the Office of the Supervisory Council have increased due to a direct annual allocation of shared costs from Norges Bank under the terms of the service agreement. In 2018, this amounted to NOK 5.8m.

The use of external consultants, mainly to carry out supervisory projects, is included in the Office's costs. The use of consultants came to NOK 6.09m in 2018, compared with NOK 5.52m in 2017. The budget for 2019 is NOK 5m. The rows in the table showing costs for assurance engagements and financial auditing refer to services from Deloitte AS. The audit fee is based on the terms of the engagement agreement. Fees to external consultants and for assurance engagements are paid on the basis of itemised invoices.

The costs for financial auditing cover Deloitte AS's work as Norges Bank's external auditor. The Council approves the auditor's fee. In total, the external auditor's work on financial auditing of Norges Bank's annual financial statements and the quarterly financial reporting for the GPFG came to around 6,500 hours in 2018. Deloitte AS also receives fees for assurance statements concerning the government's group account and the management of government debt, and for assurance engagements relating to supervision. Fees for auditing subsidiaries and associates associated with real estate management are charged directly to those companies. It is estimated that 85 percent of expenditure on supervisory and auditing services from the external auditor and other external specialists relates to investment management.

The Director of the Office of the Supervisory Council was paid a salary and other fees of NOK 1,969,477 in 2018. Pension contributions amounted to NOK 415,845, and other benefits (electronic communication, insurance and other payments in kind) came to NOK 8,672.

The Storting sets the rates for the fixed fees paid to members of the Supervisory Council and the Permanent Committee.⁹⁵ Fees paid to members of the Council in 2018 totalled NOK 1,125,833. Fixed fees amounted to NOK 915,100. A breakdown of rates per member and fixed fees paid can be found in Table 3.

Total fees of NOK 10,800 were paid to attending alternate members of the Permanent Committee.⁹⁶ Documented losses of earnings due to travel to and attendance of meetings are also reimbursed in line with criteria set by the Council. In 2018, this amounted to NOK 199,933.⁹⁷

EVALUATION OF THE COUNCIL'S WORK

Members of the Supervisory Council perform annual self-evaluations. The aim of these is to identify areas with

⁹³ On the Norges Bank Act passed on 24 May 1985.

⁹⁴ Section 3 of the Norges Bank Act requires the Bank to inform the public about the reasons for key decisions.

⁹⁵ New rates for fixed fees in 2018 and 2019 apply from 1 January 2018. Cf. Recommendation 70 S (2017–2018): Recommendation to the Storting from the Nomination Committee on the Election of Members of Norges Bank's Supervisory Council.

⁹⁶ Alternate members of the Permanent Committee are paid NOK 3,600 per meeting.

⁹⁷ This amount includes allowances for holiday pay and supplements for trips abroad.

room for improvement and to strengthen the Council's supervision and other work. The questionnaire is completed anonymously. Comments are also invited on areas the Council should prioritise in its future work. The results of the questionnaires are discussed at a meeting, and any proposed measures are followed up by the chair of the Council and the Office.

In 2018, there were evaluations of the Council's working procedures, the discussions at its meetings, and relations with the Office, external auditor and advisers. The year's study trip and seminars were also discussed, as was remuneration in relation to time consumption. Members gave largely positive feedback on the implementation of meetings and seminars. One discussion item was the large number of items and the extensive reporting from the Executive Board during the year. Not all of the meetings with external institutions during the study trip lived up to expectations. These matters will be followed up in the planning and implementation of future meetings and activities.



APPENDIX 1

NORGES BANK'S SUPERVISORY COUNCIL 2018–2019

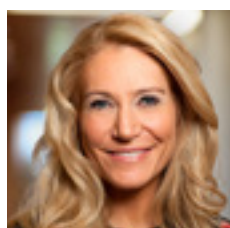
NORGES BANK'S SUPERVISORY COUNCIL 2018–2019

Full members	First elected	Current term
Julie Brodtkorb, chair	2018	2018–2021
Reidar Sandal, deputy chair	2010	2018–2021
Tormod Andreassen	2008	2016–2019
Vidar Bjørnstad	2012	2016–2019
Pål Farstad	2018	2018–2021
Ingrid Fiskaa	2016	2016–2019
Gjermund Hagesæter	2018	2018–2021
Helle Hammer	2016	2016–2019
Kjetil Lund	2016	2016–2019
Morten Lund	2010	2016–2019
Morten Sjøberg	2018	2018–2021
Ingebrigt S. Sjøfonn	2012	2016–2019
Ib Thomsen	2018	2018–2021
Paul Birger Torgnes	2014	2018–2021
Randi Øverland	2012	2016–2019
Varamedlemmer		
Lars Bjarne Tvete	2014	2016–2019
Jonas Varhaug	2016	2016–2019

PERMANENT COMMITTEE

Full members	Personal alternates
Julie Brodtkorb, chair	Helle Hammer
Reidar Sandal, deputy chair	Ingrid Fiskaa
Tormod Andreassen	Ingebrigt S. Sjøfonn
Gjermund Hagesæter	Paul Birger Torgnes
Randi Øverland	Morten Sjøberg

PROFILES OF THE MEMBERS OF THE SUPERVISORY COUNCIL



Julie Brodtkorb, chair

CEO of the Norwegian Association of Heavy Equipment Contractors. Chair of the Norwegian Broadcasting Council.

Past experience includes secretary of state and chief of staff at the Office of the Prime Minister, member of Oslo City Council, adviser on business and finance policy, deputy chair and communications director of the Conservative Party parliamentary group's secretariat, communications director at Utfors AS, CEO of JKL and consultant at Geelmuyden Kiese. MBA from the Norwegian School of Economics.



Reidar Sandal, deputy chair

Executive chairman of Kystvegen Måløy – Florø AS and board member at Helse Førde HF. Consultant. Past experience includes Minister of Education, Research and Church Affairs, member of the Storting and chairman of its Standing Committee on Finance and Economic Affairs, county councillor, teacher, department director at Sogn og Fjordane County Municipality, adviser to Botnaneset Industriselskap AS, CEO of Sunnfjord Chamber of Commerce, chairman of Fjord1 AS, Nynorsk kultursentrum, Sunnfjord Næringsutvikling AS and Innovation Norway, and board member at Investinor AS.

MA from the University of Bergen.



Tormod Andreassen

Board member at Lærdal Finans AS, Liberalt Forskningsinstitutt Lifo and Sparebank1 Nord-Norge Pension Fund.

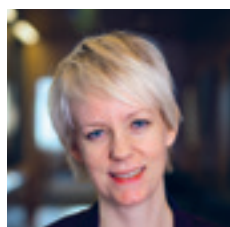
Past experience includes deputy CEO and chief economist at Christiania Bank, chief investment officer and chief economist at SpareBank 1 Gruppen, CEO of Alfred Berg Norge AS and SR-Fonds, chairman of Berg Fondsforvaltning, department director at Statistics Norway, board member at the Norwegian Commercial Banks' Guarantee Fund and member of Finance Norway's life and pensions committee.

BSc in Economics from the University of Oslo.



Vidar Bjørnstad

Head of the international department at the Norwegian Confederation of Trade Unions (LO). Past experience includes member of the Storting and its Standing Committees on Social Affairs, Justice, Foreign Affairs, and Education, Research and Church Affairs, political adviser at the Ministry of Development Cooperation, county operations leader at Amnesty International, member of the board of the European Movement and private secretary to the president of LO. BA from the University of Oslo.



Ingrid Fiskaa

Teacher at Sandnes Upper Secondary School.

Past experience includes secretary of state at the Ministry of Foreign Affairs, member of the High Level Panel on Illicit Financial Flows from Africa, and board member at Attac Norge.

MA in History from the University of Oslo.



Pål Farstad

Tourism officer of Visit Nordvest.

Past experience includes member of the Storting and its Standing Committee on Business and Industry, member of Møre og Romsdal County Council, member of Kristiansund City Council, business adviser, CEO of Nordmøre Fiskebåt and Nordmøre Fiskarlag, and chairman of the Kristiansund district chamber of commerce.

Degree. Teaching qualification from the University of Trondheim.



Gjermund Hagesæter

Partner at Panor Public Affairs AS. Spokesman at Kryptovault AS.

Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration and Finance and Economic Affairs, secretary of state at the Ministry of Justice, county and municipal councillor, officer in the Armed Forces, legal adviser for the UN, assistant head of health and social services, legal consultant, board member at Nordhordland Kraftlag, member of the transport committee in Hordaland, deputy chairman of Haukeland Hospital, and member of the board of the European Movement.

Law degree from the University of Bergen and economics degree from the Norwegian School of Economics.

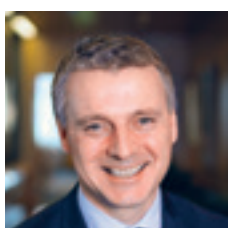


Helle Hammer

CEO of Cefor. Board member at Maritimt Forum.

Past experience includes secretary of state at the Ministry of Trade and Industry and the Ministry of Finance, political adviser in the Oslo City Government, Norwegian deputy governor of the EBRD, director of Innovation Norway's office in Houston and director of the Norwegian Shipowners' Association.

BSc in Economics from Oslo Business Academy.

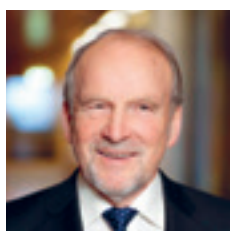


Kjetil Lund

Director at the Norwegian Water Resources and Energy Directorate (NVE).

Past experience includes Vice Mayor for Business Development and Public Ownership in the Oslo City Government, senior vice president of public affairs at Statkraft, researcher at Statistics Norway, secretary of state at the Ministry of Finance, head of the secretariat for the UN Special Envoy for Climate Change, adviser at the Office of the Prime Minister and the Ministry of Finance, and board member at Ruter AS.

MSc in Economics from the University of Bergen.



Morten Lund

Retired.

Past experience in self-employment and as farmer, researcher at the Norwegian College of Agriculture and the Norwegian Labour Inspection Authority, member of the Storting and chairman of its Standing Committee on Business and Industry, alternate member of the Board of Auditors General, mayor and chairman of Fosen Regional Council and the committee of Sør-Trøndelag Kraftselskap.

BSc in Agriculture and PhD from the Norwegian College of Agriculture and the Norwegian Institute of Technology.



Morten Søberg

Head of public relations at SpareBank 1 Gruppen.

Past experience includes researcher in Statistics Norway's research division, fiscal and constitutional adviser to the Centre Party's parliamentary group, and secretary of state at the Ministry of Finance.

Doctorate in experimental economics from the University of Oslo and BSc in philosophy and economics from the London School of Economics.

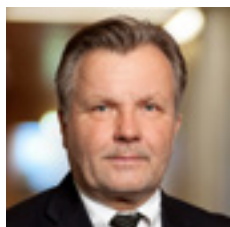


Ingebrigt S. Sørffonn

Self-employed.

Past experience includes member of the Storting, member of its Standing Committees on Finance and Economic Affairs and Foreign Affairs, mayor and financial director at Sunnhordland Kraftlag AS.

Master of Management from BI Norwegian Business School.



Ib Thomsen

Director at Thon Hotels Triaden.

Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration and Family and Cultural Affairs, municipal executive committee member in Nittedal, chairman of Nittedal Energiverk and area manager for the Norwegian Home Guard.

Management training in the Armed Forces and at BI Norwegian Business School.

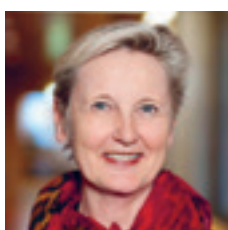


Paul Birger Torgnes

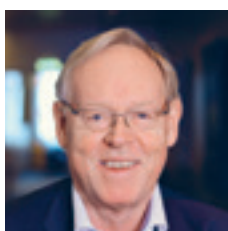
CEO of Fjord Marin Holding AS, chairman of the Norwegian Seafood Federation, chairman of Norsk Havbrukssenter and various companies, and municipal executive board member in Brønnøy.

Past experience includes mayor, CEO of Fjord Seafood ASA and NorAqua AS, board member at Torgghatten ASA, political adviser to the Minister of Fisheries, and secretary-general of the Norwegian Aquaculture Association.

MSc in fisheries economics from Bodø University College and the Norwegian Fisheries College.

**Randi Øverland**

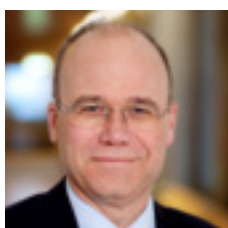
Senior adviser at the University of Agder and member of Vest-Agder County Council. Board member at Agder Kollektivtrafikk, Lister Kompetanse, Agder county vocational training board, Sørlandsrådet and NSC Marine Resources Group, among others. Past experience includes secretary of state at the Ministry of Culture and Church Affairs and the Ministry of Education, Research and Church Affairs, chairwoman of Agder College Board, board member at the Norwegian Film Institute, city councillor and municipal executive committee member in Kristiansand, and headmistress. Degree from Telemark University College and further studies in political science at the University of Oslo.

ALTERNATES**Lars Bjarne Tvete**

Chairman and owner of LBT Holding AS, board member at Thomas Angells Stiftelser, supervisory board member at SpareBank 1. Past experience includes member of Trondheim City Council and Sør Trøndelag County Council, founder and CEO of Basale Eiendomsforvaltning AS, board member at BN kreditt and chairman of Trondheim Municipal Pension Fund. Economics degree from Trondheim Business College.

**Jonas Varhaug**

CEO of Jærøk DA accountants. Past experience includes farmer, accountant and municipal treasurer. Authorised accountant, state-authorised public accountant from the Norwegian School of Economics.

DIRECTOR OF THE OFFICE OF THE SUPERVISORY COUNCIL**Jan Frode Jakobsen**

Past experience includes CEO of pension fund Helseforetakenes Pensjonskasse, director of Oslo City Council's secretariat, economic adviser and head of secretariat for the parliamentary Labour Party, secretary to the Standing Committee on Finance and Economic Affairs, adviser at the Ministry of Finance and inspector at Finanstilsynet. MBA from the Norwegian School of Economics and MSc from the London School of Economics.

APPENDIX 2

RESPONSE TO REPORT TO THE STORTING NO. 7 (2018–2019) “ON A NEW CENTRAL BANK ACT”

Ministry of Finance
Postboks 8008 Dep.
0030 Oslo

Date: 7 January 2019
Your ref.: 17/2969
Our ref.: 1/2019

Response to Report to the Storting No. 7 (2018-2019) “On a new central bank act”

Norges Bank's Supervisory Council refers to the Ministry of Finance's letter of 5 December 2018, which asked for comments on the governance model for Norges Bank and the management of the Government Pension Fund Global (GPF), for which the government was seeking parliamentary support in Report to the Storting No. 7 (2018-2019).

The Council is positive about the white paper and the Ministry's clarification of what supervision and the Council's role entail. The Council considers it a sound procedure for the Ministry to ask in writing for feedback on the proposed governance model and key supervision-related issues.

1 On the roles and responsibilities of the Executive Board and the Supervisory Council

The Council considers there to be a clear distinction between the Executive Board's responsibility for the management, organisation and oversight of Norges Bank's operations, and the Council's control and supervision duties. The Council's work on approving the Bank's budget, adopting its annual financial statements and appointing the external auditor also consists of clearly defined duties with unambiguous responsibilities. The Executive Board is responsible for drawing up plans, financial statements and budget proposals.

It is important that the control and supervision system is continued and enhanced under the new act. The Council believes that the proposals in Report to the Storting No. 7 on changes to the Norges Bank Act ought not alter the division of duties between the Executive Board and the Supervisory Council. The Executive Board has established internal control based on control functions within the operational organisation. The Council has a supervisory responsibility that is independent of this internal control.

The law should clearly cover all aspects of Norges Bank's activities. This means both supervision of the Bank's operations and supervision of compliance with applicable rules. The management mandate for the GPF states that the Bank is to establish principles for valuation, performance measurement, and risk management, measurement and control that, as a minimum, adhere to internationally recognised standards and methods. Public reporting is to provide a true and

comprehensive overview of how the Bank executes its management assignment. The establishment of reference portfolios and other aspects of the execution of the management of the GPFG are to be subject to the Council's supervision.

1.1 “[...]right of access with respect to all of the Bank's affairs [...]”

1.1.1 Current act

Section 5 of the current Norges Bank Act states: *“The Supervisory Council shall supervise the Bank's activities and ensure that the rules governing the Bank's operations are observed. The Supervisory Council shall in this respect supervise the Executive Board to ensure that the Executive Board's management and control of the Bank's administration and operations are satisfactory and that appropriate procedures have been established so that the Bank's activities are conducted in accordance with legislation, agreements, decisions and other regulatory frameworks. The Executive Board's exercise of discretionary authority under the Norges Bank Act is not subject to the Supervisory Council's supervision. The Supervisory Council has **the right of access with respect to all of the Bank's affairs and may conduct any investigations it deems necessary in order to fulfil its responsibilities under the Act.** [...]”*

1.1.2 Proposed new act in NOU 2017:13

Today's Section 5 is retained in Section 4-1 (1) and (2) of the draft act for Model C:

“(1) The Supervisory Council shall supervise the Bank's activities and ensure that the rules governing the Bank's operations are observed. The Supervisory Council shall conduct supervision to ensure that the Board's management and control of the Bank's administration and operations are satisfactory and that appropriate procedures have been established so that the Bank's activities are conducted in accordance with legislation, agreements, decisions and other regulatory frameworks. The exercise of discretionary authority under the Act by the Board or the Committee is not subject to the Supervisory Council's supervision.

“(2) The Supervisory Council has the right of access with respect to all of the Bank's affairs and may conduct any investigations it deems necessary in order to fulfil its responsibilities under the Act.”

1.1.3 The Council's assessment

The Council believes that the retention of the provisions of the current Section 5 in the new Section 4-1 (1) and (2) is of great importance for its supervision. It is important that, in its supervision of the Executive Board, the Council carries out independent investigations, supervision projects, assurance projects, etc. at the Bank. The Bank is to undergo independent, risk-based supervision, cf. the discussion in Report to the Storting No. 7. The Financial Supervisory Authority of Norway, Finanstilsynet, has equivalent supervisory duties for institutions in the financial sector.

In the Council's opinion, this provides a basis for conducting investigations at every level of the Bank, and for its supervision not being restricted to matters considered by the Executive Board. One fundamental premise for the Council's work is its right of access with respect to all of the Bank's

affairs and right to conduct any investigations it deems necessary in order to fulfil its responsibilities under the Act.

The Council interprets this such that all information that is relevant to control and supervision is to be made available, and that it is the Council itself that decides what is relevant. This right must be unrestricted. This means, among other things, that the Council is to supervise the entire organisation, and that this covers all units of Norges Bank, including underlying companies.

The Council is, for example, to examine whether the compliance units and Internal Audit do actually report directly to the Governor and the Executive Board independent of their location in the organisation. The Council may also check whether the Executive Board's Audit Committee considers reports from Internal Audit in a thorough and satisfactory manner, and whether the Board deals with remarks and reports from all of the control units in an adequate and reassuring manner. The Council is to assess the Board's choice of solutions, delegation of powers, authorities, the extent of control and the implementation of risk assessments against international practice and standards.

Internal Audit is the Executive Board's control body. The Council has access to information from Internal Audit and considers investigations in areas relevant to its supervision. This is in keeping with standard supervisory practice.

1.2 The Executive Board's duties

1.2.1 Current act

Section 5 of the current act states: *“The Executive Board is in charge of the Bank's operations and manages its resources. The Executive Board shall ensure the sound organisation of, and establish satisfactory frameworks, objectives and principles for, the Bank's operations. The Executive Board shall ensure that the Bank's operations, including accounting and asset management, are subject to sound governance and control. The Executive Board shall supervise the Bank's administration and other activities.”*

1.2.2 Proposed new act

The current Section 5 on the Executive Board's duties is to some extent retained in Section 2-4 “Duties of the Board” in the draft act for Model C in NOU 2017:13. One important change is that a number of duties that are currently the responsibility of the Executive Board are transferred to a new Committee for Monetary Policy and Financial Stability. The proposed text in NOU 2017:13 is worded differently to the current act. This is due partly to the proposal to create the new committee, but also helps clarify the duties in question.

“Section 2-4 Duties of the Board

“(1) The management of Norges Bank is the responsibility of the Board, with the exception of matters assigned by this Act to the Committee. The Board has overall responsibility for Norges Bank's

management of the Government Pension Fund Global. The Board shall ensure the sound organisation of Norges Bank.

*“(2) The Board shall establish plans for Norges Bank’s activities. The Board **may** lay down guidelines for the Bank’s activities. The Board shall each year prepare a budget proposal for the coming financial year, cf. Section 4-2.*

“(3) The Board shall ensure that the Bank’s operations, presentation of accounts and asset management are adequately managed and controlled. The Board shall supervise the Bank’s daily management and other activities. The Board shall not supervise the Committee’s exercise of discretionary authority.

*“(4) The Board **may** issue instructions relating to the daily management of central banking and investment management.”*

In Section 3.5 of Report to the Storting No. 7, the Ministry writes that the Board of Norges Bank is to *“ensure adequate structures and systems at the Bank, including for the operational management of the GPFG. In addition, the Board must monitor plans for the entire Bank and ensure that the Bank has good governance and control. The Board plays an important role in challenging management on matters put before the Board.”*

1.2.3 The Council's assessment

One of the Executive Board's tasks under the current act is to ensure that satisfactory frameworks, objectives and principles are established for the Bank's operations, both as a whole and for the individual operational areas. The proposed new act states that the Board may issue guidelines and instructions for the daily management of central banking and investment management. It could thus be unclear whether the draft act is setting specific requirements for the Board to draw up policy documents, or leaving it up to the Board to assess the need for such documentation.

Under the draft act, the main focus for the Board is then to monitor *“plans for the entire Bank and ensure that the Bank has good governance and control”*.¹ This could be taken as a narrowing of the Board's responsibilities and duties relative to the current act. The Council believes that this should be clarified so that the Board's responsibilities are clear and specific in the proposed new act. This will be an important premise when it comes to supervising the Board. The Council believes that the Board has a duty to produce and update regularly a strategy for the Bank's activities as a basis for the annual budget proposal and other action plans. The general manager for the GPFG should also submit a strategy plan to the Board (as a basis for its budget etc.).

¹ Report to the Storting No. 7, Section 3.5.

1.3 The Supervisory Council's oversight and reporting

1.3.1 Current act

Section 30 of the current act states that the Council must *“at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, cf. Section 5, fourth paragraph, fifth sentence.”*

1.3.2 Proposed new act

The current provision on reporting by the Supervisory Council is retained in Section 4-1 (4) of the draft act: *“The Supervisory Council shall at least once a year present to the Storting its statement on supervision of the Bank. [...]”*

1.3.3 The Council's assessment

The Supervisory Council reports to the Storting on its activities in Document No. 9. The Storting considers the report and provides guidance through this process. The Ministry of Finance follows up the Storting's resolutions and comments. The Council is to help the Storting as a whole have an adequate basis to conduct adequate supervision of activities that fall under “the monetary affairs of the Realm” under Article 75(c) of the Constitution.² The Council therefore has an independent responsibility to follow the Storting's signals in its consideration of Document No. 9.

The Council plays no direct role in the governance of the Bank through its supervisory duties, but as part of its supervision it may ask questions about decisions taken by the Executive Board in order to understand the background to those decisions. The Council may also issue recommendations on changes intended to strengthen the management and control of Norges Bank, and ask for the Board's response.

1.4 Exercise of discretionary authority

1.4.1 Current act

The concept of discretionary authority is mentioned in Section 5 of the current act: *“[...] The Executive Board's exercise of discretionary authority under the Act is not subject to the Supervisory Council's supervision. [...]”*

1.4.2 Proposed new act

Section 2-4 (3) of the proposed new act states that the Board is not to supervise the new Committee for Monetary Policy and Financial Stability's exercise of discretionary authority. The provision in the current act is retained in Section 4-1, clarifying that the Council's supervision does not extend to the exercise of discretionary authority by either the Board or the Committee.

² Cf. the opinion of 17 August 2018 from the Ministry of Justice and Public Security's Legislation Department.

The preparatory work on the new legislation (NOU 2017:13) refers to Section 1 of the Supervisory Council's Rules of Procedure, where the border with discretionary decisions is defined such that the Council's supervision “[...] does not extend to the Executive Board's exercise of discretionary authority under the Act. The general supervision of the Bank's activities will, however, include the organisation and processes established by the Bank as a basis for the exercise of this discretionary authority.”

We would also refer to the Council's Report to the Storting for 2015, which states: “*The Council's supervision does not extend to the Executive Board's exercise of discretionary authority under the Act. This applies particularly to monetary policy and financial stability and means that the Council does not comment on the Board's interest rate decisions, consultation responses or advice to political authorities. This also applies to Norges Bank's advisory role in the management of the GPFG and its work on macroprudential supervision and the monitoring of systemic risk [where] the aim is to help reduce vulnerabilities in the financial system.*”

1.4.3 The Council's assessment

In this area, a clear border is drawn with monetary policy and the use of instruments to promote financial stability, as well as the provision of advice to the Ministry. The proposal for a technical Committee for Monetary Policy and Financial Stability may help clarify which areas entail a use of discretionary authority and so are not to be supervised by the Council.

It is nevertheless important for the Council to supervise the Bank's decision-making processes. Its supervision includes assessments of whether adequate documentation has been prepared as a basis for specific decisions, whether relevant issues have been taken into account, and whether the minutes adequately present the decisions made. It is important that the Bank's practices and organisation are considered in the light of recognised international practice. In this area too, the Council must be able to request information about how the work is organised and carried out, and make an independent assessment.

1.5 Good, risk-based supervision

1.5.1 Current act

The current act does not give any guidance on how supervision is to be conducted.

1.5.2 Proposed new act

The proposed new act does not provide guidance on how supervision is to be conducted either, but Section 3.5 of Report to the Storting No. 7 states that, considering “*the GPFG's significance for the Norwegian economy, that the fund is invested globally, and the complexity of parts of its management, it is important in the Ministry's view that the management of the GPFG is subject to good, risk-based supervision.*”

The Ministry goes on to explain what is meant by “risk-based supervision”: “[...] *Risk-based supervision of the Bank's operations, as things stand today, means that the Council gives high priority to supervision of the Bank's compliance with the provisions of the mandate. In its supervisory work, the Council should attach importance to both reputational and financial risk if the Bank's operations are not conducted in accordance with applicable laws and rules. The assessment of the financial risk associated with potential breaches of rules should include both the risk to the Bank's own income statement and the financial risk that could burden the Ministry of Finance via the krone account for the GPFG.*”

1.5.3 The Council's assessment

The Council has noted the Ministry's formulation in Report to the Storting No. 7 that, in its supervisory work, the Council is to “*attach importance to both reputational and financial risk if the Bank's operations are not conducted in accordance with applicable laws and rules*”.³

The Council believes that it is crucial that this is not understood as a narrow supervisory role limited to checking compliance with legislative and regulatory requirements. Legislative and regulatory compliance, including compliance with the management mandate for the GPFG, is indeed an important part of the Council's supervision. However, there is also a need for its supervision to cover areas where the legislative and regulatory framework gives the Board scope to make its own assessments and priorities. This applies, for example, to organisational matters, the delegation of authority, and the choice of solutions for monitoring risk. The Bank should be assessed against good practice in all areas. To perform such assessments, the Council must be free to establish a benchmark that is relevant to the areas being assessed.

2 Comments on the governance model and the management of the GPFG

2.1 On the Board, the Governor and the general managers of NBCBO and NBIM

2.1.1 Current act

Section 6 of the current act states that the Governor chairs the Executive Board. Section 10 says that the Executive Board may give the Governor special authority to decide matters that fall within the scope of authority of the Board. The final paragraph of Section 5 states that the Governor is in charge of the Bank's administration and the implementation of decisions.

The Governor chairs the Board and is the general manager of the central bank.

The management mandate for the GPFG from the Ministry of Finance states that Norges Bank is to manage the GPFG. In practice, the Executive Board has delegated responsibility for the management of the GPFG to the CEO of NBIM through a separate job description. Under this job description, NBIM's CEO reports to the Executive Board on the execution of the management assignment.

³ Report to the Storting No. 7 (2018–2019), p. 38.

2.1.2 Proposed new act

In Report to the Storting No. 7, the Ministry refers to the Gjedrem Commission's proposal that: *“The Governor will, as today, play a dual role as chairman of the board and general manager for central banking operations, and he or she will chair the committee for monetary policy and financial stability. It is proposed that the current practice whereby the daily management of the GPFG is assigned not to the Governor but to the general manager for NBIM is codified.”*⁴

The current management mandate for the GPFG does not state that the GPFG is to have a general manager. However, Norges Bank's Executive Board has built up a structure that goes beyond what is required by the mandate, and in practice it is the head of investment management who reports to the Executive Board.

The draft legislation in NOU 2017:13 contains provisions regulating the Governor's role as general manager for central banking operations.

On the role of the Governor

Section 2-2 of the draft act in NOU 2017:13 states that the Governor is to have the role of general manager for Norges Bank. The tasks falling to the Governor as such are set out in Section 2-11:

“Section 2-11 Tasks of the Governor as general manager

“(1) The Governor shall be responsible for the daily management of the Bank's activities and shall follow guidelines and instructions from the Board. Daily management does not include matters which by the Bank's standards are of an unusual nature or major importance. Nor does daily management cover matters that belong solely to the daily management of investment management.

“(2) The Governor may also decide a matter on the authorisation of the Board or when measures must be taken and there is no time or opportunity to present the matter to the Board. The Governor shall forthwith notify the Board in writing of the decision.

“(3) The Governor represents Norges Bank externally.”

On the general manager for investment management

Section 2-13 (1) of the draft act states: *“Investment management shall have a general manager who is appointed by the Board [...]”*.

The draft also contains provisions on what the role of general manager entails:

*“(2) The general manager is in charge of **the daily management** of Norges Bank's management of the Government Pension Fund Global and **shall follow guidelines and instructions from the Board**. Daily management **does not include** matters which by the operational area's standards are of an **unusual nature or major importance**.*

⁴ The Governor's roles are set out in Section 2-2 of the draft act in NOU 2017:13.

“(3) The general manager may also decide a matter on the authorisation of the Board or when measures must be taken and there is no time or opportunity to present the matter to the Board. The general manager shall forthwith notify the Board in writing of the decision.”

Section 2-5 (4) of the proposed act states: *“The Governor prepares matters for the Board. **The general manager for investment management prepares matters relating to investment management activities.** The general manager for investment management has **a right and a duty** to attend the Board’s consideration of matters concerning investment management and to speak, unless in special cases the Board decides otherwise or the general manager has a valid reason for absence.”*

2.1.3 The Council's assessment

The draft act uses the term “general manager” for both the Governor and the head of investment management. If it is to be codified that Norges Bank’s operations are to have two general managers, it may be unclear which responsibility each is to have in relation to the general organisation of the bank. The responsibilities of each officer should therefore be made clear. It should be made clear what responsibilities the Governor has beyond serving as general manager for central banking operations, for example whether he or she is intended to play the role of “Group CEO” as head of the whole of Norges Bank. It should also be made clear what role the Governor has when it comes to preparing matters for the Board.

The division of roles and responsibilities between these two officers will, among other things, affect the Bank’s reputation, the co-ordination of support functions and the realisation of synergies in the Bank’s operations.

The Council considers it natural to view the Governor as a “Group CEO”, whereas the general manager for the GPFG is the CEO for the investment management operational area. This would clarify that the Governor attends meetings of the Council as the head of the whole of Norges Bank and as the chair of the Board. The Council considers it important that the new act makes it clear that Norges Bank is a single entity, with one board and one chief executive.

Otherwise, the Council does not believe that codifying that the general manager for investment management is appointed by the Board will affect the implementation of its supervision, as the Council will still have access to information on investment management for its investigations in the same way as it does for central banking.

2.2 Duty for Norges Bank’s management to attend Council meetings

2.2.1 Current act

The sixth paragraph of Section 7 of the current act on the Supervisory Council reads:

“[...] The Governor and Deputy Governors are obliged to be present unless otherwise decided by the Supervisory Council, or they have valid reasons for being absent.”

Section 10 of the Council's Rules of Procedure states further on attendance at meetings of the Council: *“[...] The Governor and Deputy Governance may bring experts with them where necessary. Members of the Executive Board are not normally present during the consideration of matters concerning the administrative affairs of the Council or the Office of the Supervisory Council. The Council may request that other members of the Executive Board attend for specific items. [...]”*

2.2.2 Proposed new act

The proposed new act retains the current act's provisions on the Council's meetings in Section 2-17.

2.2.3 The Council's assessment

As stated in Section 5 of the current act and Section 4-1 of the proposed new act, the Council has *“[...] the right of access with respect to all of the Bank's affairs and may conduct any investigations it deems necessary in order to fulfil its responsibilities under the Act.”*⁵ This means, among other things, that in its supervision the Council is free to call in those officers at the Bank that it considers best suited to providing factual information.

The Bank's executive management also chooses whom they wish to attend meetings of the Supervisory Council to provide the best information on the matters considered. It is useful for the executive management to inform the Council in advance about who will be present for which items. This practice functions well and should be continued.

2.3 Changes to the mandate

The Supervisory Council is positive about the Ministry's proposal to consult the Council ahead of changes to the management mandate for the GPF. Such a dialogue may be appropriate partly to ensure that the changes can be subjected to scrutiny in a control and supervision context. A separate letter from the Ministry of Finance will strengthen the Council's independent role at the Bank and help ensure that mandate changes can undergo supervision and control.

3 Other matters

3.1 Number of members required to call a meeting of the Council

3.1.1 Current act

The fifth paragraph of Section 7 of the current act on the Supervisory Council reads: *“The chair of the Supervisory Council calls a meeting of the Supervisory Council as often as is required, or when at least five of the members or the Executive Board so request.”*

⁵ See Section 1 of this letter: *“[...] right of access to all of the Bank's affairs [...]”*.

3.1.2 Proposed new act

The proposed new act retains the current act's provision on the Council's meetings in Section 2-17, but reduces the number of members required to request a meeting.

NOU 2017:13 proposed a reduction in the number of members of the Supervisory Council. Section 3.5 of Report to the Storting No. 7 states: *“Unlike the Commission, the Government does not propose reducing the number of members of the Supervisory Council.”*

3.1.3 The Council's assessment

Given that the proposal to reduce the number of members of the Council is not intended to be implemented, cf. Report to the Storting No. 7, the Council believes that the proposal to reduce the number of members required to call a meeting is not relevant.

3.2 Incorporation of the Internal Control Regulation into the Norges Bank Act, cf. the Financial Institutions Act

3.2.1 Current act

The current regulation on risk management and internal control at Norges Bank (Internal Control Regulation) was issued pursuant to Section 30a of the current Norges Bank Act. The regulation applies to the whole of Norges Bank's activities, including subsidiaries.

The third paragraph of Section 30a reads: *“The Bank shall have an internal audit unit that reports to the Executive Board. The internal audit unit shall assess the Bank's internal control, procedures and other conditions that are important to the Bank's operations. **The King may lay down regulations concerning the Bank's internal control.**”*

3.2.2 Proposed new act

In the proposed new act, there is a separate section on internal auditing,⁶ where the possibility of issuing supplementary rules (including regulations) on internal control is retained in the third paragraph.

“Section 4-5 Internal audit

“(1) The Bank shall have an internal audit unit that reports to the Board.

“(2) The internal audit unit shall assess the Bank's internal control, procedures and other conditions that are important to the Bank's operations.

*“(3) **The King may lay down rules concerning the Bank's internal control.**”*

⁶ Section 4-4 in model A, becoming Section 4-5 in model C.

NOU 2017:13 states that the Commission presumes that the requirements set out in the Ministry's Internal Control Regulation will be retained. Regulations are easier to update in line with developments in best practice.

3.2.3 The Council's assessment

The Council would stress the importance of the Internal Control Regulation setting clear requirements for the Board, management, Internal Audit and other control units. The provisions should continue to be clear and concrete.

When the new Financial Institutions Act was passed, a regulation on risk management and internal control was abolished for a number of institutions, and replaced with more general provisions in the new act.⁷ The Council is not a licensing or regulatory authority and cannot issue detailed rules and requirements in the same way that Finanstilsynet does for the entities that it supervises.

If the regulation on risk management and internal control at Norges Bank is abolished, the clear and concrete requirements set out in the regulation will, in the opinion of the Supervisory Council, need to be incorporated into the new act.

3.3 The Office of the Supervisory Council

3.3.1 Current act

The final sentence of paragraph 4 of Section 5 of the current act states that the Supervisory Council shall be served by a secretariat.

3.3.2 Proposed new act

Section 2-15 of the proposed new act retains the requirement that the Council has a secretariat. It also states that in “[...] matters concerning employees of the secretariat, the Council represents Norges Bank as employer.”

3.3.3 The Council's assessment

The Council's supervisory and control tasks have become more extensive as Norges Bank's operations have evolved. The Office plays an important role in assisting the Council in carrying out its duties. The Council proposes the following formulation of the text in the new act to make this clearer: “*The Supervisory Council shall have a professional secretariat.*”

This issue was considered in Proposition to the Odelsting No. 58 (2008-2009), and the provision in the first sentence was incorporated into the act.

⁷ Financial Institutions Act, Sections 13-5 and 13-6.

The organisation of the secretariat was discussed, and the Ministry made the following statement: *“In the Ministry’s view, there are grounds to stipulate in the act that the Supervisory Council must have a separate secretariat. Even after the system with a Central Bank Audit unit is abolished, the Supervisory Council will have important duties. The Council is to supervise the Bank’s operations, adopt its budget and accounts, and appoint and engage in dialogue with its auditor. To carry out these duties, the Council will require a skilled and professionally independent secretariat/supervision unit. The Ministry does not, however, see a need to codify that the Council is to organise its own tasks. Such would follow from a standard linguistic interpretation of the act.”*

It also wrote: *“Against this background, the Ministry would propose a new fifth sentence for the third paragraph of Section 5, stating that the Council is to have a secretariat. The Council will have the power to appoint the head of the secretariat and issue administrative guidelines. The Ministry does not see a reason to specify this in the act.”*

The Office’s tasks and independence in its work follow from the role of the Council. The Council believes that this assessment should continue to apply. Such matters should not be incorporated into the new act. At the same time, it must be clear that the Council is free to manage the development of its own secretariat.

3.4 An act for Norges Bank

The draft legislation in NOU 2017:13 was drawn up on the basis that the management of the GPFG would no longer be part of Norges Bank, and this colours a number of the draft act’s provisions, including in Chapter 1.

3.4.1 On the objects clause: Section 1-2

The Council believes that, as such a major part of Norges Bank’s activities, the management of the GPFG should be included in the objects clause. In the new draft new act, it is only in Section 1-3 (6) that investment management is mentioned, and the preparatory work suggests that this actually refers to the foreign exchange reserves rather than the management of the GPFG. A good solution is to mention both the foreign exchange reserves and the GPFG in the objects clause, such that it is clear that Norges Bank is to safeguard and grow financial wealth for future generations.

Reference could also be made to Section 1-3 of the management mandate for the GPFG: *“The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio’s currency basket, see Section 4-2, first paragraph, and within the applicable management framework.”* Text could also be taken from Section 1-3 (6) of the draft act: *“The Bank shall ensure efficient and sound investment management.”*

3.4.2 Use of the name “Norges Bank”

The draft legislation in NOU 2017:13 reads:

“(1) [...]The Supervisory Council reports to the Storting on the supervision of the Bank pursuant to the fourth paragraph of Section 4-1.”

To ensure that the proposed new act applies to the whole of Norges Bank, *“the supervision of the Bank”* should be amended to *“the supervision of Norges Bank”*.

The Council suggests that the new act systematically uses the name “Norges Bank” rather than “the Bank”.

The Council believes that the new act should make it clear which provisions apply to Norges Bank as a whole. It should also specify which provisions apply only to individual operational areas, such as central banking and investment management.

Yours faithfully

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