



NORGES BANK
INVESTMENT MANAGEMENT

Alison Jones
Natural Capital Coalition
1 Moorgate Place
London
United Kingdom

Date: 9 December 2016

Response to the Survey on the proposed Finance Sector Supplement of the Natural Capital Protocol

Norges Bank Investment Management welcomes the opportunity to share our views on the proposed Finance Sector Supplement of the Natural Capital Protocol.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. As of 30 September 2016, the fund was invested in USD 892 billion of assets globally.

Norges Bank Investment Management expects companies to identify, address, and disclose material sustainability risks and opportunities they face. Natural capital is a useful concept for our investee companies to frame risks and opportunities related to the environment. A protocol that promotes the integration of this concept in companies' operations and improves internal decision-making could reduce company risks from environmental degradation, and potentially help companies identify new revenue streams.

One challenge to including natural capital information in our organisation's processes is arriving at a uniform and robust methodology to account for natural capital that would also allow cross-sector comparability, and ensuring consistent reporting of this data. A Finance Sector Supplement could guide a diverse set of financial sector participants on how the natural capital concept could be relevant to them and make output consistent and comparable between companies who apply the protocol.

We support the creation of separate supplements for the banking, investment, and insurance subsectors, in a manner that recognises the different relationship each has to companies. Furthermore, appropriate actions and, as the case may be, the tracking of results for investors in secondary markets will be different than for real

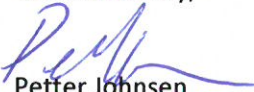


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economy agents. Specifically, investors' priorities will often be based on an information set underpinned by consistent and comparable disclosure by companies. The Finance Sector Supplement should recognise that and seek to concentrate on the tools through which finance sector participants could include natural capital considerations – for investors, these tools include risk assessment, standard setting, and engagement.

You can find our response to the specific questions set out in the survey in the appendix to this letter. We have also delivered our response electronically.

Yours sincerely,


Petter Johnsen
CIO Equity Strategies



Basak Yeltekin
Senior Analyst Ownership Strategies



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APPENDIX Norges Bank Investment Management's response to specific questions

State of play: Interest and relevance

How important is natural capital in your organization's decision-making processes?

Norges Bank Investment Management expects companies to identify, address, and disclose material sustainability risks and opportunities they face. Natural capital is a useful concept for our investee companies to frame risks and opportunities related to the environment. A protocol that promotes the integration of this concept in companies' operations and improves internal decision-making could reduce company risks from environmental degradation, and potentially help companies identify new revenue streams.

As minority investors, we work to integrate relevant sustainability information into our investment process, risk management, and company engagements. In this, we both rely on and work to promote robust methodologies and improved market standards and practices to achieve such integration.

What do you see as the key challenges to integrating natural capital into your organization's decision-making processes?

The Natural Capital Protocol notes that governments, financial institutions, and businesses "would gain significantly from improved sharing of the data and information on natural capital and environmental impacts that they collect (Spurgeon 2015), and future alignment would be beneficial for all". Thus, the key challenge to including natural capital information in our organisation's processes is arriving at a uniform and robust methodology to account for natural capital that also allows cross-sector comparability, and ensuring consistent reporting of relevant data.

Would a Finance Sector Supplement be useful for your organization?

Yes, a Finance Sector Supplement could be useful for our organization.

What do you see as the primary contribution(s) of a Finance Sector Supplement?

The primary contribution would be to guide a diverse set of finance sector participants on how the natural capital concept could be of relevance for their processes. It may also act as a further catalyst to make output more consistent and comparable between companies. By achieving this, the Finance Sector Supplement could help position the Natural Capital Protocol beyond an internal decision-making tool for companies.

Scope of the Supplement

Do you agree that the Finance Sector Supplement should focus on the banking, investment, and insurance sub-sectors? Should the Supplement cover other sectors?

We believe it is a good start for the Finance Sector Supplement to focus on the aforementioned subsectors; we do not have other suggestions at this time.



Should we prepare one overarching supplement for the entire finance sector or separate supplements for each sub-sector?

There should be separate supplements for each sub-sector. The banking sector, for example, often provides debt finance for a specific project, whereas equity investors invest in the company in its entirety, and insurance companies underwrite policies that protect against specific risks. Each area has different strategic tools at their disposal, premised on their operations, for example, the different relationship they have with companies, and different risk-return profile. Recognising these differences would make the supplements more robust and more widely applicable.

Do particular finance sector actors have specific needs and interests that need to be taken into account when developing the Supplement?

Yes. For example, we are minority shareholders and by law, we have an upper limit of 10 percent of ownership in any given listed company. The Finance Sector Supplement should reflect accepted principles for corporate governance and take into account that minority investors cannot determine decision-making at their investee companies. Nor is it necessarily easy to derive real environmental “impact” or “results” from activities in the context of investments made in the secondary markets.

Structure and content of the Supplement

Should the Finance Sector Supplement follow the established decision-making process of the Natural Capital Protocol? If not, can you suggest an alternative structure?

Applying the decision-making process of the Natural Capital Protocol would necessitate that finance sector participants also conduct a natural capital assessment. However, an investor with a reasonably diversified portfolio would not be able to do such an assessment without a uniform, robust, and widely-adopted reporting framework. As the Protocol itself states, the Protocol “does not explicitly list or recommend specific tools or methodologies, and neither does it propose that outputs be consistent and comparable between companies.” This is a challenge in the development of a meaningful natural capital assessment model for investors.

The second issue in the Protocol’s decision-making process is the scope and measurement/valuation of impact, and application and action. Impact and relevant actions for investors in secondary markets are different from those for real economy agents – such investors cannot themselves determine the actions of investee companies, nor can they account for investee company impacts. The Finance Sector Supplement should recognise that and seek to concentrate on the tools through which finance sector participants can integrate natural capital – for investors, these tools include risk assessment, standard setting, and engagement.