NORGES BANK
INVESTMENT MANAGEMENT

The High-Level Expert Group on Sustainable Finance

Sent by email to the HLEG secretariat at fisma-sustainable-finance@ec.europa.eu

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Financing a Sustainable European Economy – Interim Report by the High-Level Expert Group on Sustainable Finance

We refer to the public consultation of 13 July 2017 on the High-Level Expert Group on Sustainable Finance ("HLEG") interim report and its recommendations. We have not responded to the consultation through the online survey. In the report, HLEG writes that it welcomes comments, questions and discussions during the process of preparing its final report for publication in December 2017. We are grateful for the opportunity to contribute our views on certain topics raised in the interim report, and for the chance to engage further with the group on relevant issues.

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. The fund had assets of USD 873 billion at the end of 2016, of which USD 115 billion (EUR 109 billion) was invested in equities listed in the European Union. USD 1 billion of these were invested in green technology through the dedicated internal environmental mandates in the European Union and almost USD 1 billion in green bonds in the European Union. We are a globally diversified investment manager with an equity portfolio consisting of minority stakes in listed companies.

We welcome the HLEG's work to provide advice on the financial sector's role in supporting the EU's transition to a low-carbon, more resource-efficient and sustainable economy. We believe there is an interplay between finance and real-economy policies and actions. At its best, finance has the ability to reinforce predictable and consistent policy frameworks and ambitions, thereby contributing to both sustainable market outcomes and sustainable development through profitable and prudent investment and ownership decisions.

Recommendation 3: Fiduciary duty that encompasses sustainability:

As a long-term, global investor we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets. We have a clear self-interest in market outcomes that also underpin sustainable development. Investors can choose to promote

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sustainable development through responsible investment management, including active ownership, standard setting, or dedicated investments. Investors are accountable for the outcomes of such activities, and may report on them at the appropriate level of detail. Investors nevertheless do not, and are not supposed to, assume responsibility or account for the functioning of markets or market outcomes in a broader sense.

We have additional Guidelines for the observation and exclusion of companies setting out the minimum requirements that companies in our investment universe must meet, and we manage the fund to maximise returns within these constraints. We also make specific environmental investments and may make portfolio adjustments where we deem governance risks to be heightened, or business models to be unsustainable.

Within other norm-based principles and standards that are relevant for investors' operations, we believe that an expectation that institutional investors integrate ESG factors and long-term sustainability exists when these matters pertain materially to the financial values of investments. In that context, such considerations become a proper part of analysis for a fiduciary. The degree of materiality of different risks should be determined at the appropriate level within institutions, and be suited to the strategic and operational context. To keep objectives clear, a principle that allows investors to accept lower expected returns or take on greater risks in order to secure extra-financial benefits may not be appropriate as a general principle of fiduciary duty.

Assessments of environmental, social, and governance risks by investors rest on premises that are still not fully understood or described. For example, investors' ability to analyse the market implications of climate change and, as such, assess appropriate responses, requires a strong knowledge about the market dynamics of climate risks and the channels through which company impacts may be linked to financial returns. We have therefore made supporting further academic research into the financial economics of climate change a priority in our own work. Over time, we believe such research may make it clearer exactly how sustainability affects markets and investments and enable investors to approach these matters in an increasingly robust and systematic manner.

At the topic level, we believe there are specific sustainability and public policy issues that are important for informed voting and investment decisions. Such topics include (i) environmental issues, including reporting on climate risks and emissions, (ii) social and employee matters, (iii) respect for human rights, and (iv) anti-corruption and bribery and (v) tax and transparency. Although many guidelines and practices exist, there are no generally agreed principles for operationalising investors' integration of environmental, social or governance topics, other than at a high level, such as the Principles for Responsible Investment (PRI). The consideration of an OECD convention to provide further guidelines for responsible business conduct by investors may be a useful avenue. Such a convention could be more specifically suited to the role and responsibilities of investors. It could also directly reflect the scope to influence conduct and promote change in relationships where the actual agents responsible for corporate decision-making are boards and management teams.

Recommendation 4: Disclosures for sustainability:

We would like to see improved company disclosure of sustainability matters. In our own work, we are looking for sustainability information that is relevant to value and performance across topics, sectors and markets. We expect companies to consider the sensitivity of their long-term business strategy and profitability to relevant future regulatory and physical risk scenarios. More generally we expect them to disclose information on material issues appropriately. We understand the rationale for setting a minimum disclosure requirement to ensure that relevant information is broadly communicated to the financial markets. We would at the same time caution against creating reporting frameworks that become purely 'tick-the-box' exercises. As environmental, social and governance assessments, methodologies, tools, and data develop rapidly, we believe it can be counter-productive to ask for narrow prescriptive indicators or to presume that some metrics or strategies to address issues are inherently superior to others.

For example, carbon footprinting is a well-established and rigorous metric integrated in our existing processes. Nonetheless, it is only one tool, and one that on a standalone basis may not exhaustively capture climate risk. Emissions data itself is backwards-looking, and provides no direct economic, social, strategic, or operational context. Since 2014, NBIM has analysed the greenhouse gas emissions from the companies in our equity portfolio and published this data in the fund's annual Responsible Investment report. In 2016, we calculated the carbon footprint of our fixed-income corporate bond portfolio for the first time. A key challenge in this exercise is the lack of standardised and comparable data in corporate reporting. As a result, our analyses are based on extensive use of modelling by specialised, third-party data providers. If not contextualised or triangulated with other information, such metrics and analyses could be highly sensitive to non-streamlined methodologies.

The exercise of ownership or standard setting activities can, moreover, be equally relevant actions to address climate change risk as portfolio adjustments. More generally, even when there is a well-founded vision and ambition for responsible investment, the distinct strategy to actualise it is best determined on the fund level. As an example, strategies will vary between active and passive funds, as well as between universal and concentrated owners.

We consider a principles-based approach, underpinned by materiality, to be the most appropriate for creating a disclosure framework flexible enough to address evolving issues. We support the development of improved sustainability and corporate governance standards and practices at the national and market level, and their alignment at an international level. The further harmonisation of generally accepted methods and metrics is a priority. Alignment with the TCFD recommendations, and the structuring of climate reporting around governance, strategy, risk management, and metrics and targets are sensible, and broadly in line with Norges Bank Investment Management's expectation document on climate change.

We also highlight the guidance provided in the European Commission's recently published Guidelines on non-financial reporting in this context. We envisage that qualitative and quantitative disclosures on environmental, social and governance issues will continue to evolve. Further research to develop relevant datasets and references would be helpful. We believe it is important to be mindful of such challenges and recognise that many aspects

surrounding environmental, social and governance disclosure by investors represent long-term targets.

We appreciate your willingness to consider our views, and we remain at your disposal for any further information that you might require. We remain at your disposal and welcome a meeting with representatives of HLEG, its secretariat, or other relevant parties to continue our dialogue on these matters, should this be of interest.

Yours faithfully,

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