



NORGES BANK
INVESTMENT MANAGEMENT

Sustainable Finance Committee of the German
Federal Government
c/o Bundesministerium der Finanzen
Wilhelmstr.97
10117 Berlin

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Interim Report of the Sustainable Finance Committee of the German Federal Government

We refer to the Interim Report of the Sustainable Finance Committee of the German Federal Government. We welcome the opportunity to contribute an investor perspective.

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, with the objective of ensuring a high long-term return. NBIM is a globally diversified investment manager, with EUR 31.5 billion invested in equities in Germany and EUR 21 billion in fixed income, at the end of 2019.

We welcome the Interim Report published by the Sustainable Finance Committee and we would like to offer an investor perspective on one specific topic discussed in the report: corporate sustainability reporting. We recently published a document¹ presenting our views on this subject, which might be of interest to the Committee.

We have an inherent interest in how companies manage their use of natural and social resources, as this can have a bearing on their ability to create financial value. Moreover, 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.

As a financial investor, we rely on good corporate governance and board accountability. We expect company boards to ensure that company reporting reflects all material sustainability risks and opportunities. In German companies, with a dual board structure, we believe the supervisory board has an important oversight role to play in these matters. The board should provide shareholders with quantitative sustainability information on a regular basis. Disclosures should in our view cover all financially relevant sustainability matters and account for any significant environmental and social consequences of company operations. Sustainability disclosures should include indicators of exposure, management and performance, and be reported at least annually.

¹ Norges Bank Investment Management, Asset Manager Perspective, *Corporate Sustainability Reporting*
https://www.nbim.no/contentassets/f49fab899158490ab3fd095e5d859ad8/assetmanagerperspective_1-20_corporatesustainabilityreporting.pdf



Our investment and ownership decisions benefit from information about:

- **Risk exposure.** Determining whether a company is exposed to a specific sustainability issue can, in some cases, be a simple assessment of its industry and country of headquarters. However, understanding the extent of that exposure often requires much more detailed information about the nature and location of a company's supply chain, operations or customers. It would be beneficial if companies share this information with investors where commercially practicable. *Examples: location and type of assets, lists of suppliers or country-by-country revenue.*
- **Risk management.** We need to understand how companies manage relevant sustainability risks and opportunities. *Examples: Is there board-level oversight? Are these issues integrated into strategic decision-making and risk management processes? Does the company have policies and initiatives on these topics?*
- **Performance metrics.** Relevant, comparable and reliable key performance indicators are necessary to fully understand a company's response to a sustainability issue and its potential financial implications. *Examples: scope 1, scope 2 and, as relevant, scope 3 greenhouse gas emissions, total water withdrawal and consumption (m³), total number and percentage of facilities audited to a social responsibility code of conduct, etc.* Companies should use internationally recognised calculation methodologies where these exist.

The use of globally accepted reporting standards by companies is a central element of sustainability disclosure, as it increases comparability across markets. Therefore, we welcome the reference to existing international standards in the Committee's Interim Report. We welcome the proposal to implement the recommendations of the Task Force on Climate-related Disclosures (TCFD), which provide a logical framework for company reporting. In addition to TCFD reporting, the Committee could also refer to the standards developed by the Sustainability Accounting Standards Board (SASB), which support companies in reporting financially material sustainability information to investors. SASB's standards present the advantage of being industry specific, provide clarity on materiality assessments and cover a broad range of sustainability topics. Finally, to communicate their economic, social and environmental impacts to an audience broader than just investors, companies may use the Global Reporting Initiative (GRI) standards.

The report mentions the idea of developing sustainability indicators for corporate disclosures in Germany. As a global investor, we would prefer to see solutions at international or European level, referring to or integrating existing international standards. We believe that developing country-specific indicators could have the unintended consequence of preventing comparability of companies' disclosures across markets.

Moreover, the Committee proposes that companies report a core set of industry-specific indicators, irrespective of an audit of materiality or relevance to the company. We support this proposal and suggest that companies, where applicable, use SASB' standards for this purpose.



Furthermore, we note the proposal to expand the scope of reporting to include also unlisted companies. This measure would contribute to a level playing field between otherwise comparable listed and unlisted companies.

We agree with the Committee that the disclosed information needs to be accessible. Annual reports and financial disclosures are central sources of information for investors, and companies could integrate financially material sustainability information into these. Information on sustainability issues which are not financially material could be disclosed through other channels than the financial reports.

Currently, companies respond to many questionnaires sent by rating agencies, indices, investors, NGOs and others about their sustainability practices and performance. These questionnaires are often based on topic-specific or proprietary frameworks, making it difficult for companies to satisfy all requests without disclosing the same information in several different ways. As standards and technologies for information gathering and sharing evolve, we believe that publishing information in company reports and on websites will be sufficient. It should not be necessary to respond to questionnaires if a company has published complete and standardised information elsewhere

Finally, concerning scenario analysis, we encourage companies to consider the sensitivity of their long-term business strategy and profitability to different regulatory and physical climate scenarios. To support strategic decision-making, they should identify future scenarios for climate regulation, carbon prices, and environmental conditions. The scenarios should include low-emissions scenarios incorporating countries' expressed national, bilateral or international climate commitments and ambitions. One such scenario should consider the successful implementation of policies to achieve the Paris climate goal.

Currently, the data and models used for scenario analyses are associated with great uncertainty, making it difficult to ascertain how individual companies' operations and earnings will be affected in different scenarios. We welcome the TCFD's ambition to provide further guidance on scenario analyses. We also support the UN Environment Programme's Finance Initiative (UNEP FI) to develop models for investors to report in line with the TCFD recommendations.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

Carine Smith Ihenacho
Chief Corporate Governance Officer

Séverine Neervoort
Senior analyst, Corporate Governance

