NORGES BANK
INVESTMENT MANAGEMENT

Alison Jones
Natural Capital Coalition
1 Moorgate Place
London
United Kingdom

Date: 31 August 2017

Response to the Consultation on the Natural Capital Protocol Finance Sector Supplement

Norges Bank Investment Management welcomes the opportunity to provide some comments on the Finance Sector Supplement of the Natural Capital Protocol published in May 2017, following our submission on its proposal in December 2016.

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 June 2017, the fund was invested in more than USD 950 billion of assets globally.

Norges Bank Investment Management expects companies to identify, address, and disclose material sustainability risks and opportunities they face. We believe company boards should be aware of their business' impact on the natural environment. Natural capital is a useful concept for our investee companies to frame risks and opportunities related to the environment and to start considering these in an economic context. Increased natural capital disclosure by firms in line with a generally agreed protocol may provide investors with more performance-relevant information about how business operations interact with a broad set of natural capital issues.

The Finance Sector Supplement to the Natural Capital Protocol offers a framework for investors to gather better information about investee companies' natural capital assessments, impacts and dependencies, and succeeds in guiding a diverse set of finance sector participants on how the natural capital concept could be of relevance for their activities.

The Finance Sector Supplement is logical and well structured; it explains the context for each section – framing, scoping, measuring and valuing, and application – and summarises relevant outputs at the end of each module. It encourages the financial sector not to consider natural capital in silos, but instead explore the interconnections between climate change, water, and biodiversity, as well as and economic factors. Furthermore, it invites finance sector participants to consider exposures at the geographic, asset class, and portfolio level, even if these were not identified as significant risks at the individual entity level.

We believe there are many aspects of interplay between finance and real-economy policies and actions. The objective of most responsible financial investors is to maximise returns according to their investment mandates. 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. However, determining the degree of materiality of environmental and social risks and deciding on relevant policies is ultimately a matter for a given institution's board and should be suited to the strategic objective and operational context. Furthermore, we do not believe one can readily transpose the concept of impact from investee companies to investors.

As we had iterated in December, one important challenge to including natural capital information in our organisation's processes is arriving at a uniform and robust methodology to measure natural capital that would also allow cross-sector comparability. The valuation methods are helpful; however, we would welcome further guidance on the applicability and suitability of these methods to enable cross-sector comparability. As business practices evolve and underlying data become more complete, the Finance Sector Supplement to the Natural Capital Protocol could become a useful methodology for observing how investments interact with natural capital developments. Such information could be integrated into and enrich existing risk management, investment and ownership processes.

Many sustainability challenges exist in value chains of companies and sectors. They are often complex, shared with competitors and stakeholders, and require policy solutions. We do not think that the type of information gathered would be suitable for portfolio-wide foot printing, for many of the reasons provided in the supplement such as double counting, context-specific considerations, and lack of equivalence between geographies and sectors. Moreover, systematic integration of such information in investment decision making relies on it being widely available and of sufficient quality, as well as on assumptions concerning how financial markets have accounted for the underlying information in the first place. Generally, this type of information may have a more direct bearing on specific ownership or risk assessments.

In our earlier submission, we had supported the creation of separate supplements for the banking, investment, and insurance subsectors, in a manner that recognised the different relationship each has to companies. Although there is only one supplement created across the three subsectors, we believe that the supplement nevertheless succeeds in offering a framework to financial institutions to think about many types of natural capital both at the entity and portfolio level. The case studies for banking, asset management, and insurance are relevant and offer practical examples about how financial institutions may decide to approach these topics.

You can find our response to the specific questions set out in the survey as a second document. We have also delivered our response electronically. We wish you good luck with finalising the supplement.

Yours sincerely,

Petter Johnsen
Chief Investment Officer Equity Strategies

Carine Smith Ihenacho
Global Head Ownership Strategies