



European Commission
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European Commission Inception Impact Assessment on the Revision of the Non-Financial Reporting Directive

We refer to the European Commission's consultation on the Inception Impact Assessment, ahead of the revision of the Non-Financial Reporting Directive. We welcome the opportunity to contribute our 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.

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.

We agree with the European Commission's observation that, at this stage, although more companies report some sustainability information than in the past, the level of detail and quality continues to vary significantly. We welcome the Commission's objectives, to ensure investors and other stakeholders have access to adequate information from companies and to reduce unnecessary burden on companies related to non-financial reporting.

We would like to see relevant, comparable and integrated disclosures from companies. As an investor, we need the following information:

- **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.

We have taken note of the Guidelines on climate-related disclosures, adopted in 2019, and welcome the European Commission's decision to introduce the recommendations of the Task Force on Climate-related Disclosures (TCFD), which provide a logical framework for company reporting. We also welcome the Commission's reference, in the Guidelines, to globally accepted reporting standards. The use of these existing international standards increases comparability across markets.

As a next step, to achieve consistency in sustainability reporting across topics, we see the benefits of revising the Non-Financial Reporting Directive (**policy option 3**).

- The Directive could require that companies base their reporting on existing sustainability standards, such as those of the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI). The standards developed by SASB support companies in reporting financially material sustainability information to investors. SASB's standards present the advantage of being industry specific. The GRI Standards are designed for companies to communicate their most important economic, social and environmental impacts, to an audience broader than just investors. We see many aspects of these two standards as complementary.
- Companies could integrate financially material sustainability information into their financial disclosures, such as annual reports. Some sustainability information traditionally seen as non-financial may be directly relevant in financial statements – for instance in assumptions underlying impairments, fair value measurement and estimated useful life of assets. Other sustainability information could be integrated into existing descriptions of strategies, outlooks, risks and business models. Disclosed in an integrated way, descriptions and sustainability metrics should become coherent with the financial statements.
- Information on sustainability issues which are not financially material could be disclosed through other channels than the financial report. Currently, companies respond to many questionnaires sent by rating agencies, indices, investors, NGOs and others about their sustainability practices and performance. As standards and



technologies for information gathering and sharing evolve, we believe that publishing information in digital format in company reports and on websites will be sufficient.

- For investors to confidently use sustainability information, it needs to be subject to similar quality control as other information companies provide to financial markets. Sustainability disclosures could be subjected to similar internal governance procedures as financial disclosures, with a final sign-off from the board. The data collection process and documentation should be rigorous enough to allow for third-party assurance or verification. Over time, we believe that assurance of sustainability reporting will become the norm.

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

Yours faithfully,

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