



NORGES BANK
INVESTMENT MANAGEMENT

The Climate Disclosure Standards Board
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Date: 27.05.2014

Submission to the Climate Disclosure Standards Board (CDSB)

We refer to your 17 February 2014 invitation to comment on the draft Climate Disclosure Standards Board ('**CDSB**') framework for corporate reporting (the '**Draft Framework**'). If implemented, the Draft Framework will expand the CDSB's scope of reporting to include water and forest commodities in addition to the current climate change related coverage. We appreciate the opportunity to participate in this consultation and provide comments to the CDSB.

Norges Bank Investment Management manages the Norwegian Government Pension Fund Global (the '**fund**'). The fund is a long-term, globally diversified shareholder with minority equity positions in publicly listed companies. The fund also has investments in fixed income and real estate. We seek to protect the fund's interests through the development of corporate governance standards and practices which create shareholder value and safeguard investments, including corporate disclosure and reporting.

Our understanding is that the objective of the Draft Framework is to help companies prepare and present environmental information in or linked to financial statements and reports. It is also intended to inform the future direction of CDP's annual questionnaire on climate change risk, water management, and forestry, to which companies respond. We have submitted a detailed response to the Draft Framework through the CDSB online portal and a copy of that response is also enclosed as the **Annex** to this letter. In the following paragraphs we have summarised our main considerations regarding the Draft Framework.

Investor perspective

We support the objective of improving the quality and relevance of environmental information communicated by companies to investors. Our investment process requires standardised and granular information to provide further insight into company risks, and to enable consolidation of risks across the portfolio. That standardised and granular information needs to be provided consistently over time and be relevant from an economic and financial perspective.

The relevance of climate change, water resources and forests differs across geographies and sectors. To achieve the requisite quality and relevance, information needs to be provided at a geographic level, as well as by reference to each company's operations and sector. In our opinion, consolidation of such information and the ability to identify risks at a portfolio level requires information at company and site level. While the suggested Draft Framework may provide consolidation of risks across countries and sectors, it is our view that it should also reflect how climate change, water and forests have different economic and financial relevance for companies.



Harmonisation with existing regulations and standards

We support your efforts to align the Draft Framework with the objectives of financial reporting. However, given the number of standards, regulatory requirements and voluntary reporting frameworks, there is a need to consider how the Draft Framework might contribute to further consolidation of voluntary standards. It is our view that this voluntary scheme should supplement existing mandatory and regulatory reporting. As such, this should simplify and reduce the reporting burden on companies, in addition to increase transparency of environmental risks.

Emphasise the voluntary nature of the Draft Framework

International standards can be a powerful tool to strengthen expectations for sustainable business operations and disclosure over and above local legal and regulatory requirements. Such standards can contribute to transparency and greater understanding of complex environmental and social issues. Where externalities are significant and the economic risks material, third party assurances may in some cases be relevant. However, voluntary standards and reporting frameworks should distinguish themselves from mandatory regulatory and listing requirements, including the language they employ. We recommend avoiding wording with overly legal and regulatory connotations. The use of such terms may contribute to confusion and lead investors, companies, or other stakeholders to equate such standards with regulatory requirements.

Finally, we would like to thank the CDSB again for providing us with an opportunity to contribute our views on the Draft Framework.

Yours sincerely,

Jan Thomsen
Chief Risk Officer

William Ambrose
Global Head of Business Risk

Enclosure: Annex - Detailed response to the Draft Framework, as submitted to the CDSB online portal
19 May 2014

CDSB Framework consultation draft –comments submitted by NBIM via online portal on 19 May 2014

1. The objective of the Framework is explained in Section I. Do you agree with the objective as stated?

Comment:

Norges Bank Investment Management supports the objective of ensuring greater transparency into environmental, social and other risk factors, in order to enable us to integrate such information in our investment processes. We seek standardized and granular information which provides insight into a company's material environmental risks. We seek information at geographic, sector, company and site level.

2. Do you agree that there is a need for a Framework that focuses on:

- Reporting requirements for particular reporting organizations (defined in Section I);
- Specific environmental information (as defined in the draft Framework);
- A specific audience (investors); and
- Information presented in mainstream reports?

Comment:

We believe the measurement and reporting of environmental risks should be developed based on characteristics of the company's operations and that it should be comparable to that of other companies within the same sector. We expect differences in the scope of natural capital reporting across companies, industry sectors, and geographies. We expect companies to focus their reporting on elements that are materially relevant to the sector, type of operations or to the individual company.

We believe it is important to target the information to specific interested parties. As such, reporting needs to cater for investors' needs. The information may be presented in other more appropriate formats in order to meet other stakeholders' needs.

Regarding integration into mainstream reports, we believe companies should integrate information that is material to their business, including where relevant information on natural capital.

3. Scope of the Framework. The Framework asks for information about “changes” by organizations to particular “environmental elements”. These environmental elements represent a sub-set of resources and processes often described more widely as “natural capital”.

- Do you believe that the scope of the Framework is appropriate?
- If not, is the scope too wide or too narrow? Please explain why.
- If too narrow, which other environmental elements or other subject matter should it cover and why?
- If your organization already does or is planning to report on natural capital through a mainstream report, do the Framework's requirements help (albeit the environmental elements represent only a subset of natural capital at this stage) and if so, how?

Comment:

The scope of the framework is defined mostly in line with the reporting programs of the CDP which currently focus on climate, water and forestry. However, companies should consider a range of 'environmental elements' that are material to their business.

4. Form of reporting environmental information in mainstream reports. Given that the content and presentation of mainstream reports varies, it is difficult to specify exactly where and how information should be reported, but there is a demand for consistency of approach so that readers know where they can expect to access information.

- Do you think that there is a particular part of a mainstream report that should include environmental information, such as management discussion / analysis / commentary or does it depend on the nature of the information?
- Do you think we should reproduce the guidance in paragraph 2.34 of Edition 1.1 of the CDSB Framework which outlined options for presenting environmental information within management commentary;
 - as a separate section, under a subheading within the risk section;
 - interspersed in various sections of the management commentary to reflect linkages between environmental information and other aspects of the company's business such as corporate strategy, capital resources, key performance indicators and so on?
- Should the Framework include guidance on how environmental information should be reported where the mainstream report is communicated online?

Comment:

Management commentary should consider including a brief discussion of the changes in the company's environmental performance figures in the reporting period, and their relevance to a company's business strategy, risk exposure, and financial performance. Companies should consider reporting on interaction with policy-makers and regulators on topics related to environmental policy and regulation.

The CDSB framework may provide guidance on how companies can include environmental information in management commentary. However, it should not limit the discretion companies enjoy under existing reporting rules to decide how best to present this information.

5. Environmental information in mainstream reports. The Framework focuses specifically on requirements and guidance that help organizations to report on environmental information in mainstream reports. This is because CDSB believes that organizational performance is affected equally by the economic / financial *and* the environmental resources that a company needs / uses as well as by the effect of its activities and outputs on economic / financial and environmental resources.

- Do you think that environmental information produced according to the Framework is sufficient to explain how performance is affected by the organization's dependence on, use of and effect on environmental elements?
- If not, what requirements should be added or changed?

Comment:

Please see comment to question 3 above

6. What are your views on the language and terminology used throughout this Framework? In the interests of clarity and due to the absence of existing definitions, it has been necessary to define certain terms in the Framework, mainly in Section I. In other cases, for consistency, we have adopted language from existing reporting frameworks and standards with which we expect business is already familiar.

- What are your views on the definitions, style, clarity of language, jargon etc. used in the Framework?
- Do you have any suggestions for simplifying the language, definitions and terminology without losing clarity?
- Are the definitions, language and terms used in the Framework consistent with those in other reporting initiatives and standards that you use?

Comment:

On terminology, we would suggest to reconsider the use of the term 'environmental requirements', as this can lead to confusion:

“Environmental elements on which the organization depends to create value for itself and its members are described in the Framework as environmental requirements.”

As it is voluntary for companies to make us of this framework, we would suggest not relying on wording with more regulatory and legal connotations. The use of such terms may also lead to some confusion. For instance, companies may interpret ‘environmental requirements’ as regulatory compliance requirements they are subjected to under laws and regulations where they operate. Value creation depends on effectively managing risks and opportunities, and there are many pathways to create value. In turn, these should not be described as ‘requirements’. Perhaps use ‘factors’ instead.

In addition, the phrase ‘access to and rights over environmental elements’ may be unclear when left unexplained, and this may also be interpreted differently across jurisdictions.

In our experience, the phrases ‘environmental elements’ and ‘environmental requirements’ as defined in the Framework are not common in corporate reporting frameworks. Given the objectives of the Framework, terminology should in our view primarily be consistent with CDP questionnaires, and secondarily, with the International Integrated Reporting Framework.

7. Minimum reporting requirements. Various commentaries and reports refer to corporate reports being too long, cluttered and complex, thereby obscuring information that is important for decision-makers. The Framework repeats requirements from previous editions that information should be “characterized and presented clearly and concisely.”

- Do you think that specifying minimum reporting requirements for “environmental requirements” (as defined in the Framework) would help to achieve more relevant and concise disclosures?
- If so, what do you think those minimum requirements should be for each environmental element? For example, what are your views on the inclusion of non-Kyoto greenhouse gasses and whether we should provide for voluntary reporting of scope 3 (downstream) GHG emissions?
- If not, do you have any other suggestions as to how the Framework’s requirements could be refined so as to help reduce the length and complexity of corporate reports that contain environmental information?
- How helpful are the requirements in Section IV, particularly about relevance and materiality, in helping to identify the minimum information that should be reported in order to satisfy the objectives of the Framework?

Comment:

We believe minimum reporting requirements could help achieve more relevant and concise disclosures. Requirements listed under REQ-02 (p.19) provide a sound basis for comparable, standardized reporting of quantitative performance metrics. Companies should measure and report metrics that are materially relevant to their business operations and results.

8. What are your views on the availability and maturity of metrics and indicators for use in environmental reporting? In particular, we are interested in your views on which metrics and indicators are most widely used and most useful for communicating environmental performance. We would also welcome your views on the further development of metrics and indicators for environmental reporting that would be of assistance to users.

Comment:

We would support using the quantitative metrics developed and used across various CDP reporting frameworks, as identified under REQ-02, p.19. Companies should also consider measuring and reporting on scope 3 emissions.

9. Influences. The development of the Framework has been influenced by other frameworks, standards and initiatives that share CDSB’s objectives and cover similar subject matter.

References to other materials are shown in the Framework. At this stage in development, we are aware that they may not be complete.

- What other influences should CDSB take into account in developing its Framework?
- What other references should be included which are helpful for the preparation of environmental information in mainstream reports?

Comment:

We support the objective of supplementing, rather than duplicating, existing corporate reporting approaches, particularly the mandatory ones. We encourage CDSB to prioritize alignment, particularly with regards to quantitative performance metrics. CDSB should clarify and explain guidance that significantly diverges from other frameworks. To the extent that other frameworks and standards change, which in turn may change the implications of the CDSB recommendations; there may be a need for the CSDB to clarify its own terms or interpretation.

In the sub-category 'palm oil' under forest risk commodities, the CDSB should consider making reference to the quantitative metrics in the Annual Communication of Progress (ACOP) that the Roundtable for Sustainable Palm Oil (RSPO) requires its corporate members to submit each year.

10. Assurance and verification. REQ-17 asks organizations to disclose whether assurance or verification from third parties has been obtained for some or all of the environmental information disclosed in response to the Framework's requirements.

- What other standards or approaches may be used for verifying or assuring environmental information?
- What are your views on whether assurance or verification should be required for environmental information disclosed in mainstream reports?

Comment:

We support REQ-17 and REQ-18. We believe that the influence and usefulness of environmental reporting on capital markets is likely to increase if information is viewed by investors as reliable, credible, and complete. Assurance or verification from a third party could contribute to such credibility, but at the same time costs should be taken into account. As such, rather than making this a general requirement, this could be used by companies where they see a particular need in order to add to the report's credibility.