



NORGES BANK
INVESTMENT MANAGEMENT

Task Force on Climate-Related Financial Disclosure
Consultation on Phase II Report
Letter submitted online and sent by email to: info@fsb-tcfd.org

Date: 09.02.2017

Phase II Consultation Comment Letter

We refer to the public consultation of 14 December 2016 on the Task Force on Climate-Related Financial Disclosure's Phase II recommendation report. We welcome the Task Force's work to promote effective climate-related disclosures to support informed investment decisions and improve the understanding of the financial system's exposure to climate-related risk. Norges Bank Investment Management has previously responded to the consultation on the Task Force's Phase I report and would like to take this opportunity to provide some general comments to the specific questions of the Phase II survey, to which we have delivered our response online.

Norges Bank Investment Management is the investment management division of the Norwegian central bank (Norges Bank) and is responsible for investing the assets of the Norwegian Government Pension Fund Global (the fund). The fund is a long-term, globally diversified investor with minority equity positions in publicly listed companies and investments in listed fixed income instruments and real estate. As part of the management of the fund, we have focussed on climate change risk for a number of years. We view the Task Force's recommendations as broadly appropriate for our institution. We will work to adopt the final recommendations subject to the methodological and informational challenges outlined here and further highlighted in our survey response. We envisage our disclosure on the basis of the Task Force's recommendations will evolve over time, as knowledge, methodologies, and data develop.

Implementation of the Task Force's recommendations

Norges Bank Investment Management has, since 2014, analysed the greenhouse gas emissions from the companies in the 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. We wish to emphasise that financial sector disclosure as proposed by the Task Force, to a large degree depends on other sectors'

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disclosures. Investors can promote such disclosures, but cannot ensure or be accountable for their delivery. We therefore welcome the Task Force's recommendations as they, if broadly adopted, will result in a homogenous, appropriate and consistent reporting regime across jurisdictions or standards, and, as relevant, sectors and asset classes. More guidance and follow-up from the G20 governments on how the recommendations relate to broader accounting and regulatory frameworks would be useful. We wish to support companies in their efforts to implement the final recommendations.

Materiality, sectoral applications and 'comply- or- explain' approach

The Task Force's structuring of recommendations around governance, strategy, risk management and metrics and targets is broadly in line with Norges Bank Investment Management's climate change expectation document. The report's discussion and guidance around these pillars are comprehensive and timely. The inclusion of material climate risks in mainstream financial filings should help improve consistency, relevance, accuracy and timeliness of reporting.

We nevertheless believe that the recommendations may potentially be missing an important element. The Task Force writes that it expects climate risk to be material for many organisations, yet the recommendations seem to assume that every company in every sector has a material exposure to climate risks. We understand the rationale for setting a minimum disclosure requirement to ensure that relevant information is broadly communicated to the financial markets. However, determining the degree of materiality of different risks to a company's business is a matter for the board. We therefore believe the Task Force should consider the inclusion of an overarching 'comply-or-explain' mechanism in its recommendations. This would enable boards prepared to explain – in mainstream financial filings – how, and at the appropriate level of detail, why, they see no material climate change risks, to do so.

The Task Force may wish to provide further guidance on sectors for which it believes climate risk to be generally material. We assume the list provided for the guidance supplements may give useful indication in this regard. Generally, for more guidance on materiality, a reference to the International Integrated Reporting Framework could provide companies with a useful starting point. We believe that one exception to the principle-based 'comply or explain' mechanism outlined above could be a universal reporting requirement for greenhouse gas emissions, as suggested by the Task Force.

Scenario analysis and phased approach

The introduction of scenario analysis for GHG-intensive businesses to complement static disclosures enables forward-looking assessments of strategic plans, evolving risks, and opportunities. The recommendation for such assessments of business models' vulnerability or resilience to physical risks and transitions risks induced by climate change is useful. Norges Bank Investment Management nevertheless would like to highlight that there

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currently are challenges in trying to perform such scenario analysis, both for transition and physical climate risks. For transition risks, the majority of existing transition scenarios provide output such as the energy mix under given assumptions, but does not often give sector or business activity specific results. Further research to converge on accepted methodologies and develop relevant datasets and references would be helpful. We believe it is important to be mindful of such challenges and recognise that these aspects of the Task Force's recommendations represent long-term targets.

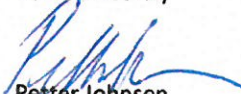
We expect companies to consider the sensitivity of their long-term business strategy and profitability to relevant future regulatory and physical climate scenarios, and more generally that they disclose information on material matters appropriately. Like the Task Force, we nevertheless envisage that quantitative disclosures will develop over time. In light of the above highlighted challenges, we believe that opening for a phased approach to scenario analysis may make the eventual adoption of the Task Force's recommendations more widespread. We would recommend that the Task Force or the FSB carry out further work to support academic and industry research to develop relevant datasets and accepted methodologies for the estimation of physical and transition risk scenarios for the purposes of the recommendations.

The financial system's exposure to climate risk

Assessments of climate risks by investors rest on many still not fully described or understood premises. In our own work, we have made the support of further academic research into the financial economics of climate change a priority. Investors' ability to analyse the market implications of climate change and, as such, assess appropriate responses, requires good knowledge about the market dynamics of climate risks, and the channels through which company impacts may result in impacts on financial investments. For example, 2-degree scenario analysis by financial actors at investment strategy and portfolio levels would be reliant on establishing the extent to which underlying risks were reflected in market prices. These financial theory dimensions have not been fully explored. Further guidance on relevant approaches to this question from the FSB would be useful.

We look forward to see the final recommendations from the Task Force on Climate-Related Financial Disclosure.

Yours sincerely


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