



## Interim report, Canada's Expert Panel on Sustainable Finance

We refer to the interim report of the Expert Panel on Sustainable Finance, published on 25 October 2018, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with CAD 21 billion invested in equities and CAD 20 billion in fixed income in Canada.<sup>1</sup> As a long-term investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms.

As climate change may affect company and portfolio returns over time, NBIM has an interest in measures that may contribute to an efficient transition to a low-carbon economy. We welcome the Panel's work on sustainable finance. We believe that, at its best, the financial sector has the capacity to reinforce predictable and consistent policy frameworks. In its interim report, the Panel provides a useful overview of what can be defined as 'sustainable finance' and potential obstacles to its development. In this letter, we offer an investor's perspective on one specific area: climate-related disclosures by companies, which are important for our investment and ownership decisions.

The way companies manage climate change risks and capitalise on opportunities may drive their long-term returns. Therefore, we expect companies to integrate these challenges and opportunities in their business strategy and financial planning, and in their risk management.<sup>2</sup> We consider that this requires board oversight.

In addition, we expect companies to report on material climate-related information and greenhouse gas emissions, based on the following principles:

- We recommend following the logic of the Task Force on Climate-related Financial Disclosures (TCFD) on governance, strategy, risk management, and metrics and targets.
- To be relevant, disclosures should be driven by materiality, focusing on issues specific to a company's sector or business model. Assumptions used when determining which issues are material, and implications for the business, should be disclosed to investors.

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<sup>1</sup> At end December 2017

<sup>2</sup> Norges Bank Investment Management, [Climate change strategy, expectations towards companies](#)



Companies could refer to existing sector-based guidance from initiatives such as the Sustainability Accounting Standards Board (SASB).

- Companies should disclose the sensitivity of their long-term business strategy and profitability to material physical and transition climate change risks and opportunities. Understanding how the company is considering climate change issues in its business planning and adapting its strategy is important for investors' analysis.
- Qualitative information should be accompanied by quantitative metrics (e.g. greenhouse gas emissions, energy consumption, share of carbon assets). Investors benefit from the timely disclosure of high-quality data and material climate-related information that are comparable over time.
- Companies should conduct and disclose scenario analysis, which are a useful tool to analyse risk under uncertainty. We encourage transparency on assumptions used and on potential difficulties faced by the company when conducting these analyses. This contributes to an open and constructive dialogue between companies and their investors.
- Preferably, material sustainability disclosures should be published in annual reports. This informs investors before they exercise their shareholder rights.
- Companies should also consider reporting climate-related information to appropriate, internationally recognised reporting initiatives. This enables investors to analyse their portfolio's greenhouse gas emissions.

Beyond climate issues, we also see the need for companies to consider other environmental challenges, such as water risks, deforestation and ocean pollution. We believe the logic of the TCFD could be applied to reporting on other sustainability challenges.

Further issues that are particularly important for informed voting and investment decisions are respect for human rights, social and employee matters, anti-corruption and bribery, and tax and transparency. Further progress can be made in companies' reporting on these issues. Ultimately, companies should understand the broader social and environmental consequences of business operations (including through the life-cycle of products), set their own priorities to address these, and account for associated outcomes.

The Panel's interim report highlights that the sustainability reporting landscape is fragmented, with a multitude of guidelines and standards in existence. As a global investor, we would welcome alignment of disclosure practices at an international level.

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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