



NORGES BANK
INVESTMENT MANAGEMENT

Platform on Sustainable Finance
European Commission
DG Financial Stability, Financial Services and
Capital Markets Union
2, rue de Spa
1000 Brussels

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EU Platform on Sustainable Finance, draft report on the social taxonomy

Norges Bank Investment Management (“NBIM”) appreciates the opportunity to share its perspective with the Platform on Sustainable Finance on the draft social taxonomy. We also responded to the online questionnaire.

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 assets valued at EUR 1,041 billion as of 31 December 2020, of which EUR 320 billion was invested in European equities and bonds of European issuers. The objective of the fund is to obtain the highest possible return and to manage the investment portfolio responsibly as laid out in the mandate given by the Norwegian Ministry of Finance.

As a long-term investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms. The long-term legitimacy of sectors and markets depends, among other things, on operations and products that are ethically acceptable. In addition, the way companies address social risks and opportunities may affect their performance, and therefore our returns.

We have published documents laying out our expectations of companies on several sustainability topics, including on human rights, children’s rights, tax and transparency and anti-corruption. We note that the Platform is considering these topics in its draft report on a Social Taxonomy. Our starting point is that company boards should understand the broader environmental and social consequences of business operations, set their own priorities and account for the associated outcomes. In our view, ensuring the respect of human rights in direct operations and supply chains, exhibiting prudent and transparent tax behaviour, and implementing anti-corruption measures are essential for good business practice and risk management.

Our expectations are based on international standards, such as the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises. We

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Signed SN, CSI



welcome the reference to these standards in the Platform's draft report on a Social Taxonomy. There is also much useful practical guidance to business associated with these standards and principles.

We support regulators and standard-setters' efforts to ensure that companies manage social risks and to enhance corporate disclosures on these matters. A Social Taxonomy might contribute to companies improving their management of social risks. It might also provide more clarity on business opportunities associated with promoting positive outcomes for people and society that exist within their financial objective. Generally, we believe there is a need for better indicators on whether and how companies manage risks, as well as quantitative and qualitative indicators on the outcomes and effectiveness of companies' efforts to address negative impacts. A Social Taxonomy might also contribute to the development of more performance relevant metrics for social disclosures.

In its draft report, the Platform proposes a structure with two dimensions. We find the horizontal dimension particularly relevant as it looks at the effectiveness of processes implemented by companies, in their efforts to respect and support human rights. We broadly support the three objectives identified in the report as well as the emphasis on good corporate governance.

The report suggests that there should be exclusion criteria to ensure that "socially harmful activities" are not eligible for social taxonomy alignment, irrespective of their meeting horizontal objectives. We recognise that certain activities might have a higher risk of causing negative impacts on stakeholders and therefore require enhanced due diligence by companies engaged in such activities. However, we question the feasibility of developing lists of "socially harmful activities", given the lack of universal norms and standards providing a basis for such criteria. Where criteria can be established, it is our experience that - other than for some very specific products - company assessment must typically happen on a conduct basis. Within our own framework, ethical exclusion criteria have been reserved for the future risk of contributions to the most severe norm violations at the company level. These exclusion criteria have been set by the Norwegian parliament.

We understand that the Platform's work on a possible Social Taxonomy is still ongoing and our response to the consultation reflects that. The implications of such a taxonomy on companies and investors will depend on its intended application. We would therefore welcome further clarifications on the purpose of a Social Taxonomy and how it could be used in practice.

Yours faithfully,

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