

European Commission
DG FISMA, Unit C1
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European Commission consultation on the Revision of the Non-Financial Reporting Directive

We refer to the European Commission's consultation on the revision of the Non-Financial Reporting Directive (NFRD) and 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 welcome the European Commission's decision to revise the Non-Financial Reporting Directive. We agree with its observation that, at this stage, although more companies report some sustainability information than in the past, the quality continues to vary significantly. The data published by companies is often incomplete and/or not comparable. Significant gaps in disclosures include a lack of information to assess companies' exposures to sustainability risks (such as information on supply chain, operations, assets or customers), incomplete disclosures on companies' management and performance, in particular on social issues (e.g. human rights and corruption), and insufficient forward-looking information.

We published recently a document on corporate sustainability reporting, sharing our perspective as global asset manager. We highlight that investors need better information on risk exposure (to determine whether a company is exposed to a specific sustainability issue), on risk management (to understand how companies manage relevant sustainability risks and opportunities) and on performance (through relevant, comparable and reliable key performance indicators, using recognised calculation methodologies)¹.

¹ Norges Bank Investment Management, Asset Manager Perspective, *Corporate Sustainability Reporting* (2020)





As an investor, we expect companies to provide information on social or environmental issues which are financially material to their business, as a starting point. We rely on both information about the current performance of a company and information about drivers of value that may be relevant for its long-term performance. In addition, companies also need to report more broadly on sustainability, as they have a wide set of stakeholders. We believe that company boards should consider the broader environmental and social consequences of business operations and account for associated outcomes. This information may in itself become financially material over time.

We would welcome, in the revised NFRD, a clear distinction between sustainability information which is financially material (therefore relevant for investors) and information which is not financially material (but relevant to other stakeholders). Companies could be asked to integrate financially material sustainability information into their financial disclosures, such as annual reports, while information on sustainability issues which are not financially material could be disclosed through other channels.

We have taken note of the European Commission's ambition to develop a European standard for sustainability reporting. A European standard could, where applicable, build on existing international 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.

There are topics for which existing international standards are not entirely satisfactory yet, and where a European standard could introduce more meaningful metrics to measure quality of companies' processes, outcomes and performance. This may be the case for human rights and corruption.

Building on existing standards and working with international standard-setters in a dynamic process would help ensure comparability of disclosures at international level, which is key for global investors. For sustainability information to support investment decisions, risk management processes and ownership activities across a diversified portfolio, it must be consistent and comparable across companies and over time.

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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