NORGES BANK
INVESTMENT MANAGEMENT

CLIMATE CHANGE STRATEGY

EXPECTATIONS TOWARDS COMPANIES

The purpose of this document is to broadly set out the ways in which Norges Bank Investment Management, as a financial investor, expects companies to approach the risks and opportunities associated with climate change. Our expectations are primarily directed at company boards. The expectations serve as a starting point for our interaction with companies on the topic of climate change.

Boards should integrate relevant climate change risks and opportunities in their business management, such as investment planning, risk management, and reporting. Boards should ascertain that the ensuing responsibilities are clearly defined within the organisation and they should effectively guide, monitor, and review company management in carrying out these efforts.

Climate change strategy

Norges Bank Investment Management is responsible for managing the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. We will, as a starting point and where appropriate, base our responsible investment practices on internationally recognised standards such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises.

PURPOSE OF THE EXPECTATIONS

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RELEVANCE OF CLIMATE CHANGE STRATEGY

The point of departure for our climate change expectations is our long-term financial objective of safeguarding the fund's assets. Climate change issues, including physical impacts and regulatory and technological responses, may give rise to risks and opportunities for companies. How companies manage transition and physical risks and opportunities, may drive long-term returns for us as a shareholder.

The scientific basis for climate change is widely accepted. Climate change has the potential to affect the global economy. The economic impacts of climate change on specific markets and regions are complex, varied, and uncertain, rendering the timing and extent of impacts hard to predict at a company level.

Climate outcomes may affect company and portfolio return over time. To reduce future risk and increase opportunities, Norges Bank Investment Management has an interest in well-functioning carbon markets and other measures that may contribute to an efficient transition to a low-emissions economy.

Our expectations are high-level guidance for companies. We promote effective climate disclosures, as these contribute to sustainable market outcomes and enable a better understanding of the financial system's exposure to climate-related risks. We welcome efforts such as those of the Task Force on Climate-related Financial Disclosures (TCFD) to standardise climate reporting according to internationally agreed principles. We expect companies to address material climate change issues in their operations and value chains. We wish to support their efforts to manage the risks and pursue the opportunities.

Our expectations are directed at all companies in our portfolio. We are, however, mindful that climate change risks may be especially relevant to companies engaged in emissions-intensive activities such as coal mining, oil and gas production, electricity production from fossil fuels and other business activities with large greenhouse gas emissions. Some expectations are also specifically related to activities such as tropical forestry, agriculture, or other activities that result in the clearing of tropical forests. The UN Sustainable Development Goals 13 Climate Action and 15 Life on Land provide further guidance for companies.

As an investor, Norges Bank Investment Management analyses opportunities and risks to our investments. We encourage companies to be transparent about the topics raised in this document. We use such information to identify how climate change may affect companies' economic performance and prospects, and to assess whether management is taking relevant steps to develop a long-term business strategy for a transition to a low-emissions economy.

EXPECTATIONS TOWARDS COMPANIES

Boards should integrate relevant climate change risks and opportunities in their business management, such as investment planning, risk management, and reporting. Boards should ascertain that the ensuing responsibilities are clearly defined within the organisation and they should effectively guide, monitor, and review company management's actions in carrying out these efforts.

A.
Integrate relevant climate change risks and opportunities in business strategy and financial planning.

- Companies should incorporate potential physical or transition climate risks that could have a material financial impact in their investment planning and execution in the short, medium, and long term. They should understand the business implications of directly or indirectly generating greenhouse gas emissions, and strive to achieve reductions over time.

- Companies should consider the sensitivity and resilience of their long-term business strategy and profitability to different transition and physical climate scenarios. To support strategic decision-making process, they should identify future potential climate regulations (such as carbon prices), technological developments and environmental conditions.

- Companies should take into consideration a transition to a lower carbon economy consistent with a 2 degrees Celsius or lower scenario, and where relevant, scenarios consistent with increased physical climate-related risks.

- Companies should monitor climate-related issues and consider whether their remuneration and incentive systems promote sustainable business practices and support the long-term profitability of the business.

- Companies engaged in activities with large greenhouse gas emissions or intensities, should have a strategy addressing a transition to a low-emissions economy. This should include specific attention to the sensitivity of major investments to different climate scenarios and corresponding regulations, such as carbon prices. The strategy may also consider research and development needs to enhance the company's competitiveness under evolving market conditions.

- Companies involved in the financing of coal activities should adopt policies that outline their criteria and assessment processes for providing new loan commitments or other type of financial intermediary support.

- Companies engaged in activities that may cause clearing of tropical forests should have a strategy to ensure the conservation of tropical forests. Companies should adopt, where appropriate, policies in line with "no deforestation, no peat, no exploitation" policies.

- Companies engaged in activities with a direct or indirect impact on tropical forests should assess their impact through, for example, life-cycle analysis, and have a strategy for reducing deforestation from their own activities or supply chains.

B.

Integrate material climate change risk in risk management.

- Companies should identify and incorporate material climate change risks, including physical and transition risks, in a robust and integrated framework. This should include appropriate processes for prioritising, mitigating, monitoring and reporting.

- Companies should describe how they consider existing and emerging regulatory requirements related to climate change.

- Companies should identify and consider relevant risk adaptation and mitigation measures; for example, programmes to improve energy and resource efficiency, increased use of less carbon-intensive raw materials and processes, optimisation of logistics and distribution and protection of high carbon stock landscapes.

- Companies should identify and monitor material climate change risks in their supply chains. To this end, they should implement relevant procurement policies for products and services, engage with strategic suppliers to share best environmental practices and integrate the cost-of-carbon into supply chain management systems.

- Oil and gas companies and companies with coal mining operations should evaluate their exposure to downstream climate risk and, where relevant, consider initiatives to promote a more efficient or low emissions' use of the fuel they produce.

- Companies should adopt, where relevant, industry standards and best practices in climate change risk management and the sustainable management of forests. Companies should disclose their processes to identify, assess and manage material deforestation risks in their own operations or supply chains.

- Companies should monitor whether suppliers that deliver forest-linked commodities, products, and materials linked to tropical forests adopt best practices to avoid deforestation and adhere to international, recognised and robust standards and certification systems for the sustainable management of forests.

C.

Report material climate change risks and greenhouse gas emissions.

- Companies should disclose a view and strategy to address material physical and transition climate change risks and opportunities in annual reports, or in case of incompatibility with national disclosure requirements, in other official company reports. Companies should seek to align their disclosures with the emerging standards set by the TCFD recommendations. Companies should be transparent on their application of scenario analysis, including key economic, regulatory, technological and physical assumptions, that will inform and promote a constructive dialogue between investors and companies.

- Companies should report greenhouse gas emissions to appropriate, internationally recognised reporting initiatives. They should report, in annual reports or on their websites, absolute and relative greenhouse gas emissions in accordance with the Greenhouse Gas Protocol.

- Companies should develop a framework to monitor the emissions associated with their business operations, and where relevant, through the use of their products or services. They should report any emissions directly generated by industrial facilities they own or operate, emissions associated with purchased or acquired electricity, steam, heat, or cooling, and if appropriate, scope 3 greenhouse gas emissions. As appropriate, companies should consider providing industry-specific greenhouse gas efficiency ratios. Asset specific information relevant for transition or physical climate risk analysis, such as locations, technologies, and physical characteristics of central facilities should be provided.

- Benchmarks and targets, and performance against these, should be quantified where relevant. Metrics and targets on climate-related risks associated with water, energy use and energy mix, land use, and waste management, as well as internal carbon prices used and revenues associated with climate-related opportunities should be disclosed. Metrics should be provided for historical periods to allow for trend analysis. Companies should provide a description of the methodologies used to calculate relevant metrics.

- Companies involved in the financing of fossil fuel activities should disclose climate-related risks and opportunities on their lending portfolios. Metrics may include the amount and percentage of carbon-related assets relative to total assets, as well as the amount of finance provided linked to climate-related opportunities.

- Companies with direct or indirect impact on tropical forests should disclose information about the climate impact of their operations and their tropical forest footprints. Companies should also disclose how they monitor their impact on tropical forests over time. Finally, companies should disclose whether and how they seek best practice and adhere to international standards for sustainable production of agricultural commodities or sustainable management of forests.

D.

Transparency on interaction with policy makers and regulators, and positions on climate change legislation and regulation.

- Companies should have policies or guidelines for engaging with policy makers and regulators on climate change and related topics and be transparent about relevant associated spending and activities.

- Companies should review their membership in industry associations and interest groups on a regular basis and assess whether the advocacy positions on climate and energy policy held in these groups are aligned with their own positions on these issues.

- Companies should promote the conditions for well-functioning markets and approach new market-based climate regulation constructively, within their financial objective.

- Companies should outline their position on specific climate change regulation relevant to their business profitability and outlook.

- Companies engaged in activities with large greenhouse gas emissions should report on activities to secure existing production or use of fossil fuels and disclose whether they, financially or otherwise, support industry groups or other initiatives seeking to influence climate regulation or policy.

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