

Corporate sustainability reporting

Position paper

Norges Bank Investment Management position

1. The board should ensure that company reporting reflects all material sustainability risks and opportunities. Disclosures should cover all financially relevant sustainability matters and account for any significant environmental and social consequences of company operations.
2. The board should provide shareholders with quantitative sustainability information on a regular basis. Sustainability disclosures should include indicators of exposure, management and performance, and be reported at least annually, including in financial statements as appropriate.
3. The board should base corporate sustainability reporting on established international frameworks and standards. The board should as a starting point consider the industry specific SASB¹ metrics and base broader disclosures on the GRI².

¹ Sustainability Accounting Standards Board

² Global Reporting Initiative

The measurement and disclosure of sustainability performance has increased significantly over the last 25 years. As a global investor, we observe different approaches to sustainability reporting across companies and markets. In certain jurisdictions, we note a number of shareholder proposals that request reporting on environmental and social risks and opportunities.

Internationally accepted principles on corporate governance stipulate timely and accurate disclosure of all material sustainability matters pertaining to the corporation and call on boards to account for the broader environmental and social consequences of company operations. Beyond these higher-level guidelines, frameworks and standards differ with regards to defining the relevant principles, topics and organisational scope for reporting. They are often applied on a voluntary basis, although mandatory reporting requirements are increasingly being introduced by national and international regulators, as well as stock exchanges.

Arguments for the position

Sustainability matters can have financial implications for companies

Many investors consider a company's sustainability-related exposure, management and performance to be relevant in their evaluation of its financial prospects. Research indicates that a company's environmental and social performance can affect revenues, costs, risks and even the long-term viability of its business model.

Transparency and disclosure enable accountability and oversight on sustainability issues

Shareholders should leave strategy and operations to the board and management, including responsibility for sustainability-related matters. The board should nevertheless provide sufficient information to affirm that sustainability considerations are integrated into the company's strategy, governance and risk management.

Sustainability reporting can contribute to positive market-wide outcomes

Sustainability reporting can contribute to well-functioning and efficient markets. Corporate disclosure increases market efficiency, and sustainability reporting has been associated with more accurate analyst forecasts and lower costs of capital for disclosing firms.

Arguments against the position

Sustainability focus can be value-destroying

Extensive focus on sustainability matters can put companies at a financial disadvantage to peers. Environmental and social issues are often highly complex in nature, making it challenging for companies to manage, account for and report on the wide-reaching implications of these.

Sustainability reporting can crowd out more relevant considerations

Companies often receive information requests from a broad range of stakeholders with diverse interests, objectives and focus areas in what concerns sustainability impacts. Addressing these requests can require considerable time and resources from the board and may divert attention away from other pressing issues.

Lack of a single reporting standard can reduce the overall value of disclosures

Investors and companies frequently lament the lack of standardised sustainability reporting frameworks. Requiring companies to respond to multiple uncoordinated surveys on specific environmental and social issues can further contribute to the lack of consistency and comparability in sustainability disclosures.

Norges Bank Investment Management's consideration

Weighing the arguments, and based on our experience as a global investor, our main consideration is that companies' exposure to and management of sustainability risks and opportunities can affect their value creation. The wider effect of sustainability reporting as a contributor to well-functioning and efficient markets further reinforces our stance. This argument is particularly relevant for an investor holding a broadly diversified portfolio whose long-term return is considered to depend on sustainable economic, environmental and social development.

Integrating material information into regular corporate publications and financial statements facilitates timely, coherent and robust disclosures. 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. There is currently no single standard covering all relevant information, therefore further development and alignment is needed. As a starting point companies can report industry specific SASB metrics to account for financially material risks and opportunities, and base broader disclosures on the GRI Standards. Leading companies can also look to our high-level expectations on how boards should manage and account for environmental and social issues.

Where a company's reporting does not meet our needs as a financial investor, we will consider supporting a well-founded shareholder proposal calling for reasonable disclosure. We will not support a shareholder proposal that appears to impose a strategy or prescribes detailed methods, unrealistic timeframes or targets for implementation.

Along with our expectations on specific sustainability topics, this position will serve as a basis for our voting considerations and for our discussions with companies and standard setters.