

Securities and Exchange Commission
100F Street, N.E.
Washington, D.C 20549-1090

13 June 2021

SEC call for input on climate change disclosures

We refer to the Securities and Exchange Commission (SEC)'s call for input on climate change disclosures, published on March 15, 2021. 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. We work to safeguard and build financial wealth for future generations. We are a globally diversified investor, with approximately USD 399.5 billion invested in listed equities and USD 139.9 billion in fixed income in the United States.¹

As a long-term investor, we expect companies to address and report on material sustainability issues that could affect their future performance. Climate change may give rise to transition and physical risks and opportunities for companies. How these are managed may drive long-term returns for us as an investor. Therefore, we expect company boards to integrate relevant climate change risks and opportunities into their corporate strategy, risk management and reporting.

We support the Commission's ambition to enhance climate-related disclosures by issuers. Despite an improvement in companies' climate-related reporting, there is still significant variation in the quality of disclosure between companies, sectors, and markets. The data published by companies is often incomplete and/or not comparable. For instance, we observe that companies in the United States do not always provide sufficient information on how they integrate climate-related factors into their business strategy and planning. Disclosures of climate-related metrics and targets could also be enhanced.

We see the need for better corporate reporting on sustainability issues in general, beyond climate change. Therefore, we would welcome clear disclosure requirements for all sustainability matters financially material to a company. In 2020, we published a document on corporate sustainability reporting, sharing our perspective as global asset manager. We highlight that investors need better information on i) risk exposure (to determine whether a

¹ as of 31 December 2020.

company is exposed to a specific sustainability issue); ii) risk management (to understand how companies manage relevant sustainability risks and opportunities); and iii) performance (through relevant, comparable and reliable key performance indicators, using recognised calculation methodologies)².

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. Therefore, we recommend that companies report financially material sustainability information following the logic of the Task Force on Climate-related Financial Disclosures (TCFD) and using the Sustainability Accounting Standards Board's (SASB) industry-specific standards. The Commission could ask companies to use these existing standards for their reporting.

Finally, as a global investor, we welcome the ongoing cooperation among regulators and the work of international standard-setters, to ensure comparability of sustainability disclosures at an international level.

Please find in the annex our responses to some of your questions. We appreciate your willingness to consider our perspective.

Yours sincerely,



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² Norges Bank Investment Management, Asset Manager Perspective, *Corporate Sustainability Reporting* (2020)

Annex – Answers to questions

Question 1 - How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

As we rely on companies' disclosures to assess their exposure to climate change and how they manage climate-related risks and opportunities, we support efforts by regulators to enhance climate-related disclosures by issuers.

We recognise the need for more consistent, comparable and reliable information. We have assessed companies' reporting on climate change since 2010. Although an increasing number of companies globally report some climate-related information, the scope and quality of disclosures varies significantly. The data published by companies is often incomplete and/or not comparable. Whilst there has been an improvement in companies' climate-related disclosures, there is still significant variation in reporting between companies, sectors and markets. In the United States, we observe that companies provide better disclosures on their approach to climate risk management than on i) governance; ii) strategy; and iii) climate-related metrics and targets. Based on our assessments, US companies in the technology, telecommunications and retail sectors have stronger climate-related disclosures compared to firms in the automotive, banking, basic resources, construction, insurance, and oil and gas sectors.

The Commission could require companies to disclose financially material sustainability information, including climate-related information. It could introduce a core set of mandatory disclosures. The Commission could ask companies to follow the TCFD recommendations and refer to SASB's industry-specific standards in their reporting. In our view, companies should integrate financially material climate-related information into their financial disclosures, such as annual reports. Information which is not financially material but relevant to other stakeholders could be disclosed through other channels.

Question 2 - What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what

information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?

Better climate disclosures contribute to improved market-level data and can help reduce macro-economic risks related to climate change.

We have published expectations of companies on climate change outlining the information we wish to see in their disclosures. These follow the logic of the TCFD framework. In line with global climate ambitions, we expect companies to disclose their climate plans and to set short-, medium- and long-term emission reduction targets that take into account the goals of the Paris Agreement. This allows investors to assess companies' readiness for the climate transition.

Furthermore, companies should assess the sensitivity and resilience of their long-term profitability to different transition and physical climate scenarios, including a well below 2 degrees Celsius scenario. Whilst there has been an uptake of climate scenario analysis by companies, this is not yet the norm. We expect companies to disclose the climate scenarios used, including assumptions, analytical methods, model outputs and sensitivity of results.

There are a range of climate-related metrics that companies could report on to enable investors to assess their exposure to -and ability to manage- climate risks and opportunities. For example, we expect companies to monitor and disclose the emissions associated with their business operations (Scope 1 and 2) and value chains (Scope 3). Emissions should be estimated in accordance with the Greenhouse Gas Protocol or other relevant industry standards. Whilst 80% of the US companies assessed in our disclosure assessments reported their operational carbon footprint, less than half of the companies reported emissions related to their value chains. This data is important for investors to assess companies' climate-related exposures and impact on the environment. Additional climate-related metrics which we consider to be important for investors are the use of a carbon price in companies' investment and business planning, capital expenditure on low-carbon technologies and investments in low-carbon R&D. Asset-specific information, such as locations, technologies and physical characteristics of facilities is also relevant for investors to assess companies' exposure to transition and physical climate risks.

We use this information in our investment decisions, risk monitoring and ownership activities, including dialogues with companies and voting decisions. Today, we have dialogues with companies to better understand their management of material risks and opportunities and assess their performance.

Question 4 - What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?

We see the benefits of establishing minimum disclosure requirements on climate change across all industries. In addition, companies should report industry-specific indicators, using globally accepted reporting standards, such as those developed by SASB.

Question 5 - What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

We welcome climate reporting in line with the recommendations of the TCFD. We encourage companies to follow the TCFD framework (structuring their reporting across the four elements of governance, strategy, risk management and metrics/targets). Based on our annual disclosure assessments, we observe that in 2020, only 11% of US companies in our sample had incorporated the TCFD recommendations into their reporting.

We also encourage companies to use the industry-specific metrics developed by SASB. These focus on financially material issues, are industry-specific and cover a broad range of sustainability topics. To communicate their most important economic, social and environmental impacts to an audience broader than just investors, companies can use the GRI Standards.

Question 8 - How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?

We expect company boards to set their own climate-related priorities and account for associated outcomes. Investors need companies to disclose whether there is board-level oversight of climate-related issues and to describe the board's role in overseeing these matters. Companies should explain where the responsibility lies at the board level and the frequency with which the board is informed about - and discusses - climate-related issues. For investors, it is important to understand how climate-related considerations are integrated into companies' strategic decision-making and risk management processes. Boards should describe how they oversee progress against companies' climate-related priorities and targets.

Question 9 - What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the

interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

NBIM is a global investor with holdings in listed equities in 71 different countries. For sustainability information to support our investment decisions, risk management processes and ownership activities across our diversified portfolio, we need it to be reported in a consistent and comparable manner across markets. Therefore, we welcome the use of global reporting standards by companies, such as the ones developed by SASB. We see the benefits for regulators such as the SEC to refer to these standards in their rules. We also welcome the proposal by the IFRS Foundation to set up a Sustainability Standards Board (SSB) and develop global reporting standards for sustainability topics. The IFRS Foundation would bring recognition and credibility to any new standards due to its governance structure and rigorous standard-setting process. In our response to the IFRS consultation on this topic, we suggested that the IFRS Foundation consider adopting or integrating parts of existing sustainability standards, such as those of SASB.

Question 15 - In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?

Climate change is among the most financially material sustainability topics for many companies. It is also the topic that is most standardised for corporate reporting. Therefore, it may serve as a good starting point for regulators when developing sustainability reporting rules. However, companies are exposed to a wide range of material sustainability issues beyond climate change. Investors would benefit from enhanced disclosures across other environmental and social topics. Therefore, we support regulators' efforts in this direction.