



NORGES BANK
INVESTMENT MANAGEMENT

World Federation of Exchanges
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Also sent via email to contact@world-exchanges.org

Response to the open consultation on the World Federation of Exchanges' Exchange Guidance and Recommendation

Introduction

Norges Bank Investment Management welcomes the World Federation of Exchanges' open review of the Exchange Guidance and Recommendation. We support the World Federation of Exchanges' initiative to provide guidance to member stock exchanges in order to strengthen and align sustainability reporting requirements and encourage the development of an overarching reporting framework.

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. At 31 March 2016, the fund was invested in assets of 856 billion USD globally. We trade on a large number of stock exchanges worldwide.

We support the development of improved sustainability and corporate governance standards and practices at national and market level, and promote adherence to recognised international standards. The UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises are important foundational principles and points of reference for good practice.

Norges Bank Investment Management expects companies to identify, address and disclose the material sustainability risks and opportunities they face. Efforts to analyse sustainability challenges in operations and supply chains should be an integrated part of a company's strategy and operational management. How companies manage such risks and capitalise on opportunities may drive long-term returns for the companies and for us as a



shareholder. Investors require appropriate information to analyse how relevant sustainability issues may impact companies' financial performance and prospects, and assess externalities and their consequences for sustainable long term economic growth.

A multitude of different stakeholders are interested in sustainability information from companies. Sustainability disclosures are used to inform on how companies meet expectations on their adherence to the aforementioned recognised international standards. In the context of financial markets, the reporting should be targeted at providers of financial capital. Focus should be on what is *material* to assess how an organisation creates value over time, and may impact sustainable economic growth in the long run through environmental and social externalities. NBIM collects, analyses and applies the sustainability data reported by companies. Based on our experience, we believe that the availability and quality of sustainability data need strengthening. Qualitative information should be balanced and quantitative targets should be provided for measurement and comparability.

Consolidation and harmonization of reporting frameworks is necessary

NBIM sees a compelling rationale in consolidating and harmonising reporting around well-founded and recognised frameworks. Currently the sustainability reporting landscape is fragmented with approximately 400 mandatory or voluntary reporting regulations, guidelines and standards in existence.¹ We believe consolidation and harmonisation of sustainability reporting around well-founded and recognised frameworks are in the interest of companies and investors. To encourage global alignment of reporting requirements, supranational and national regulations may usefully refer to and build on the two prevailing sustainability reporting standards, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), when setting their requirements. Such alignment will not only aid standardisation but also help minimise the reporting burden for companies and reduce due diligence costs for investors.

Consolidation and harmonization will enable investors to compare and contrast information over time, as well as provide companies with a cost effective way to disclose material sustainability information to investors. Consolidation and harmonisation should be the general objective for governments, market regulators, stock exchanges, industry associations, standard setters and others developing reporting guidelines and requirements.

The role of stock exchanges

As a global investor in listed companies, we benefit from both efficient price discovery and transparent, best company practices. Ideally, appropriate sustainability reporting should be a requirement for *all* companies above certain size, regardless of whether they are listed or not.

Mandatory sustainability reporting requirements set out in local law and regulation vary across markets. In markets without sufficient mandatory local requirements on sustainability reporting, we encourage stock exchanges to include sustainability reporting as part of the listing requirements to develop best market practices. The goal should be to collaborate with the government or the securities regulator to create and align sustainability

¹ Carrots & Sticks: Global trends in sustainability reporting regulation and policy (2016), see www.carrotsandsticks.net



reporting requirements with prevailing international standards. Relevant stock exchanges should seek to base reporting requirements on the existing internationally recognized sustainability reporting standards of GRI or SASB, following a sector based approach underpinned by materiality. Attempts by stock exchanges to design alternative or consolidated versions of the standards or their own reporting indicators or items should be avoided. This would add further complexity for both companies and investors.

Materiality

NBIM believes Integrated Reporting (IR) can help facilitate improvements in the quality and influence of corporate reporting and the functioning of capital markets. The Integrated Reporting framework supports concise and relevant reporting of material factors. Under this framework, a matter is material if it could substantively affect a company's ability to create value in the short, medium and long term. The process of determining materiality is entity specific and based on industry and other factors, as well as multi-stakeholder perspectives. More specific methods for determining materiality are provided in the reporting standards of GRI and SASB.

For an investor, the notion of externalities is important and needs to be adequately captured in the reporting. We therefore emphasise the importance of also including material sustainability factors in order to enable investors to consider potential future impacts companies may have on economic development through externalised costs. We believe that externalities linked to global challenges such as climate change, water stress, waste and protection of human rights, among others, need to be included in the set of material economic, environmental and social factors. For instance, the transition to a low carbon economy will affect energy systems globally, and business prospects directly, upstream or downstream.

We think the following topics emerge as fundamental for sustainable economic development, and as such should always be reported on: (i) environmental issues, including reporting on climate risks and emissions, (ii) social and employee matters, (iii) respect for human rights, and (iv) anti-corruption and bribery matters.²

Responsibility of the board

We expect company boards to understand the broader environmental and social consequences of business operations. Boards should seek to understand risks and capitalise on opportunities arising from material sustainability issues.

Sustainability reporting needs to demonstrate how the board and management are taking relevant steps to develop a long-term business strategy addressing sustainability related challenges and opportunities. Reporting requirements should therefore be clearly aligned with the board's overall responsibility of strategy, execution and reporting as set out in relevant codes of corporate governance. The G20/OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises are important points of reference for best practice.

² The listed topics are mainly in line with those set out in the EU Directive on disclosure of non-financial and diversity information (2014/95/EU)



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We thank you again for providing us with this opportunity to contribute our views. Please do not hesitate to contact us should you wish further input to your discussions.

Yours sincerely,

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Attachment: Our response to the specific questions set out in the consultation paper

Copy: Ceres, Sophia Showalter (showalter@ceres.org)

APPENDIX Norges Bank Investment Management's specific comments

Scale of Disclosure

Sustainability reporting should aim to provide evidence of appropriate integration of material challenges and opportunities in risk management, business strategy and execution, in addition to disclosure of past and current performance and forward-looking targets.

Appropriate sustainability reporting should be a requirement for all companies above certain size, defined by market capitalization; smaller companies may be exempt or granted more flexibility, allowing for a phased implementation.

Content and metrics

We welcome the development and disclosure of consistent and objective data on current and potential sustainability issues, reported according to well-defined and transparent methodologies and standards. In the context of financial markets and financial reporting, we consider a principles-based approach underpinned by materiality to be most appropriate for creating a disclosure framework flexible enough to address evolving issues. A detailed prescriptive approach, particularly if not aligned across markets, may not secure consistent and relevant information needed by investors.

The list of sustainability indicators provided by in the World Federation of Exchanges' guidance addresses topics relevant to investors. However, the stock exchanges and companies should use recognized international reporting frameworks and guidelines to ensure comparability. We consider the current proposal to be a useful starting point for the reporting of high quality and standardised data on relevant sustainability factors. However, as mentioned in our letter, we think attempts by stock exchanges to design alternative or consolidated versions of the standards or their own performance indicators should be avoided as this will add further complexity for both companies and investors.

Sectoral approach and qualitative strategy statements

We believe that sectoral guidelines are necessary both to ensure that appropriate information is disclosed and to avoid an unnecessary heavy general reporting burden. The measurement and calculation of sustainability indicators should reflect sector specificities, and be based on existing reporting sustainability frameworks. SASB present useful sector-based guidance to report on material sustainability factors, focusing on selected key indicators and thereby limiting the reporting burden of companies.

With selected environmental externalities, such as impact of climate change, it is our view that a set of consistent and comparable indicators could and should be achievable for most sectors. Such indicators may be related to absolute and relative direct and indirect emission levels and future targets, as well as information about investment plans. In addition to this, we believe that companies engaged in activities with large greenhouse gas emissions or intensities, should have a qualitative strategy addressing a transition to a low-emissions energy system, and be transparent about this.



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Timing of on-going reporting

Increased transparency, relevance and suitability of reporting may help investors assess company board's management and long-term strategies. We support requiring sustainability reporting ahead of the annual general meeting to ensure that recent and valuable information be available to shareholders as they vote on board elections, and, as relevant, other agenda topics.

Sustainability reporting that focuses on information deemed material should be made available to the market annually, and as such integrated in financial reporting.

External assurance

Demanding external assurance might result in an extra hurdle and costs to the adoption of sustainability reporting. However, to ensure the accuracy and reliability of the reported information, sustainability reporting should be assured by an external party, preferably a statutory auditor or audit firm.

Supervision and Enforcement

NBIM supports adequate and effective measures to ensure that the sustainability reporting takes place in a timely manner in accordance with local law and regulation. Local law and regulation should include appropriate measures related to supervision and enforcement. In markets where sustainability reporting is not mandatory by local law and regulation but is part of the listing requirements, we encourage stock exchanges to ensure appropriate supervision and enforcement.