

Public consultation on draft application papers on public disclosure and supervisory reporting of climate risk

Survey response 1

Please provide your information:
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Do you agree with your responses being made public on the IAIS website?
Yes

General comments draft Application Paper on public disclosure and supervisory reporting of climate risk
<p>We support the Application Paper on public disclosure of climate risk. As a long-term investor, we consider our returns over time to be dependent on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets. We are active investors in over 65 countries and require reliable, consistent and comparable climate-related financial information across global capital markets. Please refer to the link below for a full overview of the actions and disclosures we expect from companies in relation to climate change. https://www.nbim.no/en/responsible-investment/our-expectations/climate-and-environment/climate-change/</p> <p>We strongly support the IFRS Sustainability Disclosure Standards (ISSB standards) as the global baseline of investor-focused standards for climate-related financial disclosures. The ISSB standards share the same conceptual foundations as the International Accounting Standards Board (IASB) financial reporting standards, enabling investors to receive climate-related financial information that is concurrent, connected and complementary to financial statements. This is critical for us to formulate a holistic view of a company's performance and prospects over time, and inform our investment decisions, risk management processes and ownership activities.</p>

General comments on section 1 Introduction
No comment

Comments on section 1.1 Context and objective
<p>Climate risks and opportunities are financially material and can already be observed across major asset classes, including equity, and corporate debt. The fund is exposed to climate risk and investment opportunities through the companies and assets it invests in.</p> <p>We expect companies, including the insurers in which we invest, to analyse and disclose the way in which climate risk may impact their operations, value chains and demand for their products. At a minimum, disclosures should be aligned with IFRS S2 or equivalent standards. As a global investor, we require reliable, consistent and comparable climate-related financial information across global capital markets and support the objective of this AP.</p>

Comments on section 1.2 Scope and paper structure
We support the pathway laid out in the AP for supervisors to consider how to use developments in climate disclosure standards such as the ISSB standards to achieve a globally consistent approach to addressing these issues.

Comments on section 1.3 Related work by the IAIS

We support the work on climate matters by the IAIS and recommend that further work be undertaken given the rapid developments in climate science, data quality and availability and global public policy.

Comments on section 1.4 Proportionality

We support a proportionate approach, and the inclusion of ISSB as a reference standard in the AP given its approach to proportionality which can accommodate differences in reporting capabilities and data quality/availability within and across jurisdictions. ISSB S2 standard includes one year transition reliefs on scope 3 emissions reporting, use of the GHG protocol, timing of reporting, and comparative disclosures. There are also permanent proportionality mechanisms built into the standard for example, reporting entities are only required to use reasonable and supportable information that is available at the reporting date without undue cost or effort and mechanism; and reporting entities can use qualitative approaches for disclosures on climate scenario analysis and anticipated financial effects if they lack the skills, capabilities and resources for quantitative approaches.

General comments on section 2 Developing a disclosure regime

No comment

Comments on section 2.1 Climate-related risk financial disclosures: materiality and relevance

We expect companies to disclose all material and relevant information about climate matters that may reasonably be expected to affect a company's prospects. This preserves the decision-usefulness of information and avoids excessive reporting burden on companies. The ISSB standards share the same conceptual foundations as the International Accounting Standards Board (IASB) financial reporting standards, with common qualitative characteristics of useful financial information such as materiality, relevance, verifiability, and comparability. As such, we support the inclusion of the ISSB S2 in the AP and suggest that more industry specific guidance can be provided in relation to connectivity with financial statements.

Comments on section 2.2 Link to international standards

High-quality reporting standards implemented in a consistent and mandatory manner represent a significant stride towards harmonising climate-related financial disclosures, which will reduce informational asymmetry, enhance investor protection and, thus, foster well-functioning markets. This enables long-term investors like us to allocate capital to companies as they transition to a higher physical risk, lower carbon, and more sustainable global economy. We strongly support the International Sustainability Standards Board (ISSB) and its mission to deliver a global baseline of investor-focused disclosure standards, and recommend that reference to the ISSB S2 is included in the final AP.

Comments on section 2.3 Fundamental principles of a climate-related risk disclosure framework

A company's assessment of what constitutes material information will largely depend on its industry and the geographical location of its activities across its wider value chain. As regulations, consumer preferences and stakeholder expectations may change over time, these impacts may become material to a company's prospects over time. As such, we support the development of a specific climate-related risk disclosure regime for insurers to ensure that insurers disclose material industry-specific information that can inform our investment decisions, risk management processes and ownership activities.

Comments on section 2.4 Recommendations

Regulatory adoption of climate-related financial disclosure standards can encourage a level playing field by mandating consistent disclosures across jurisdictions. Adopting international standards, such as the ISSB standards, into the regulatory and supervisory framework is the most effective way to deliver globally comparable information for investors and reduce the reporting burden for companies, particularly those with operations and value chain spanning different jurisdictions. Global standardisation of investor-focused disclosures will enable investors to accurately assess and benchmark existing and potential portfolio companies. This enhances market efficiency and supports cross border capital flows. For these reasons, we fully support the recommendations outlined in 2.4 relating to regulatory adoption, materiality and connectivity.

General comments on section 3 Public disclosure of decision useful climate information

No comment

Comments on section 3.1 Climate information

We support the examples in Table 2 on how climate risk can be integrated into the disclosures that are already required under the standards ICP 20.2-20.12.

Comments on section 3.2 Disclosure of scenario analysis results

To analyse their resilience to a range of future outcomes, including those for 1.5°C and high physical damages, insurers should use climate scenarios, and disclose the results. Scenario analysis should show how changes in climate policy, including carbon pricing, could impact their operations, value chains and demand for their products. We suggest that the disclosure requirements on scenario analysis in ISSB S2 Paragraph 22 can be included to promote comparability of disclosures across jurisdictions.

Comments on section 3.3 Key criteria to improve the decision usefulness of indicators

We suggest that reference to the ISSB S1 Appendix D Qualitative characteristics of useful sustainability-related financial information be included to promote a consistent level of decision usefulness and quality of information across jurisdictions and industries.

Comments on section 3.4 Climate adaptation

Additional guidance on disclosures related to climate adaptation would be helpful. In particular, insurers should disclose the processes by which they determine the extent to which adaptive measures must be undertaken as a condition of insurance coverage and affordability.

Comments on section 3.5 Recommendations

We support the recommendation to integrate climate considerations into disclosure regimes through expectations or guidance and for supervisors to encourage the development and adoption of standardised indicators which allow for business model specificities. This is the most effective way to deliver globally comparable information for investors and reduce the reporting burden for companies. Global standardisation of investor-focussed climate disclosures will enable investors to accurately assess and benchmark existing and potential portfolio companies. As a company's assessment of what constitutes material information will largely depend on its industry and the geographical location of its activities across its wider value chain, expectations or guidance from insurance supervisors for insurance firms will enhance the relevance, decision usefulness and comparability of disclosures across jurisdictions.

We also support the recommendations for transparency and consistency in data sources and calculation methodologies, and for the use of forward looking indicators, which are aligned with our expectations for companies on climate change and with the ISSB requirements.

General comments on section 4 Considerations for supervisory reporting of climate-related risks

No comment

Comments on section 4.1 Understanding different climate-related risks

No comment

Comments on section 4.2 Supervisory reporting examples

No comment

Comments on section 4.3 Supervisor-level data issues

No comment

Comments on section 4.4 Group versus entity level reporting

No comment

Comments on section 4.5 Supervisory actions in response to information received

No comment

Comments on section 4.6 Recommendations

No comment

General comments on section 5 Governance for climate-related risk disclosure

Comments on section 5.1 Setting regulatory governance expectations and exploring governance structures

We support the setting of regulatory governance expectations pertaining to climate risk. We recommend that the disclosure requirements on governance Paragraphs 5-7 of ISSB S2 be included to enhance comparability and completeness of disclosures. In addition, climate-related financial disclosures should be subject to similar governance procedures as financial disclosures, with a final sign-off from the board. For investors to confidently use climate-related financial information, it needs to be readily accessible and subject to similar quality controls as other information that companies provide to financial markets, where applicable.

Comments on section 5.2 Recommendations

We support the setting of regulatory governance expectations pertaining to climate risk. We recommend that the disclosure requirements on governance Paragraphs 5-7 of ISSB S2 be included to enhance comparability and completeness of disclosures. In addition, climate-related financial disclosures should be subject to similar governance procedures as financial disclosures, with a final sign-off from the board. For investors to confidently use climate-related financial information, it needs to be readily accessible and subject to similar quality controls as other information that companies provide to financial markets, where applicable.

General comments on section 6 Data issues and limitations in climate-related risk disclosures

No comment

Comments on section 6.1 Data issues in climate-related risks

Comments on section 6.2 Insurer-level data issues

Comments on section 6.3 Disclosure constraints

Where additional disclosures on climate matters are needed to meet jurisdiction-specific requirements or the information needs of broader stakeholders beyond investors, these should not obscure information required for market participants, i.e. information disclosed under the ISSB standards.

We recommend that the AP includes reference to the ISSB S1 Appendix B application guidance paragraphs B34-37 for a consistent approach towards commercially sensitive information.

Comments on section 6.4 Possible actions from supervisors to address data issues

We support the suggestions made on actions from supervisors to address data issues, including the provision of open source information, standardised scenarios, building of capacity and provision of guidance. Where feasible, supervisors can work with other government agencies and entities to enhance the ease of collection and use of data sets.

Comments on section 6.5 Possible actions from supervisors to address disclosure constraints

No comment

Comments on section 6.6 Assurance of climate-related risk disclosures

We support the use of the International Auditing and Assurance Standards Board's forthcoming International Standard on Sustainability Assurance 5000 (ISSA 5000), for external assurance on sustainability disclosures. Basing assurance practices on a global standard will enhance investors' trust and confidence in climate-related financial disclosures across jurisdictions and help mitigate greenwashing risks.

In line with our public expectations of portfolio companies on climate change, we expect reasonable assurance for Scopes 1 and 2 emissions information and limited assurance for the rest of climate disclosures. We acknowledge that assurance of climate reporting has been voluntary so far, and believe that limited assurance can be a practical starting point, with an expectation that it develops to reasonable assurance over time, depending on market and policy developments.

Comments on section 6.7 Recommendations

We support the use of the International Auditing and Assurance Standards Board's forthcoming International Standard on Sustainability Assurance 5000 (ISSA 5000), for external assurance on sustainability disclosures. In line with our public expectations of portfolio companies on climate change, we expect reasonable assurance for Scopes 1 and 2 emissions information and limited assurance for the rest of climate disclosures. We acknowledge that assurance of climate reporting has been voluntary so far, and believe that limited assurance can be a practical starting point, with an expectation that it develops to reasonable assurance over time, depending on market and policy developments.