Norges Bank Investment Management

Corporate sustainability reporting

Position paper

Norges Bank Investment Management position

1. The board should, as a starting point, base corporate sustainability reporting on established international frameworks and standards, such as those from the International Sustainability Standards Board (ISSB).
2. 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.
3. Disclosures should be subject to external assurance, with limited assurance as a starting point, but aiming to progress to reasonable assurance over time.

Background

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.

We encourage the use and jurisdictional adoption of the ISSB standards as a global baseline. If preparers additionally wish to report on significant sustainability outcomes according to an impact materiality perspective, we recommend using the Global Reporting Initiative (GRI) standards.

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 crowd out more relevant considerations. 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.

Addressing these matters, and reporting on them, may require excessive time and resources from the board and management.

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.

Feasibility of assurance is unclear
Sustainability reports can be complex to assure since they typically cover wide value chains and are often qualitative and forward-looking in nature. They also often include a larger number of estimates and assumptions compared to financial statements. The absence of a clearly defined scope and standards for assurers brings into question the feasibility and quality of sustainability assurance.

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.

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. As a starting point, companies can base their reporting on the ISSB S1 (sustainability disclosure standard) and S2 (climate disclosure standard). This global baseline allows for interoperability with other frameworks and jurisdictional regimes. We also call for sustainability disclosures to be subject to external assurance, with limited assurance as a starting point, but aiming to progress to reasonable assurance over time. 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.