EFRAG
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Consultation on the European Sustainability Reporting Standards Exposure Drafts

We refer to the European Financial Reporting Advisory Group (EFRAG)'s public consultation on the European Sustainability Reporting Standards (ESRS) Exposure Drafts and 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 have an inherent interest in how companies manage their use of natural and social resources, as this can have a bearing on their ability to create financial value. Moreover, as a long-term, global investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms.

We welcome the important work of the European Commission and EFRAG in promoting better and more harmonised corporate sustainability reporting, as we highlighted in previous consultation responses. In 2020, NBIM published a document on this topic, explaining that investors need better information on risk exposure (to determine whether a company is exposed to a specific sustainability issue), on risk management (to understand how companies manage relevant sustainability risks and opportunities) and on performance (through relevant, comparable and reliable key performance indicators, using recognised calculation methodologies)[1]. Such information helps inform our investment decisions, our risk management processes and our ownership activities.

As an investor, we expect companies to provide information on social or environmental issues which are financially material to their business, as a starting point. We rely on information related to the current performance of a company (i.e. how and where it creates value today), as well as information on drivers of value that may be predictive of its long-term performance. In addition, we believe companies should also aim to report on their impact on the environment and society, for several reasons. First, companies have a wide set of stakeholders who might be interested in this information. Second, we expect companies to consider the broader environmental and social consequences of business operations and

[1] Norges Bank Investment Management, Asset Manager Perspective, *Corporate Sustainability Reporting* (2020)

account for associated outcomes, in line with international principles for responsible business conduct. Third, such outcomes may themselves become financially material over time, especially for long-term and diversified investors. Therefore, we see the relevance of the double materiality approach of the ESRS.

However, NBIM has holdings in companies globally, so we need corporate sustainability information to be reported in a consistent and comparable manner across markets. This is why we have supported the establishment of the ISSB and its mission to develop a comprehensive global baseline of corporate sustainability disclosures. We are aware of and welcome the ongoing dialogue between EFRAG and the ISSB towards the inter-operability of their standards. This will help reduce the reporting burden for companies and ensure the comparability of disclosures for users. We support the 'building block' approach, whereby the IFRS Sustainability Standards would become the global reference standards for reporting financially-material sustainability information. Other standard-setters, such as EFRAG, should refer to these standards as a core, and only add topic-, region-, or viewpoint- specific requirements. Furthermore, EFRAG's upcoming industry-specific standards should where possible build on the Sustainability Accounting Standards Board (SASB) industry standards.

We welcome the level of ambition and the topics covered in the ESRS. We also welcome EFRAG's efforts to reflect international standards such as the OECD Guidelines on Responsible Business Conduct or the UN Guiding Principles on Business and Human Rights in the ESRS. However, we believe the draft standards might need to be further amended and simplified to be operationally practical for reporting companies, and to ensure that the costs to preparers are proportionate to the benefits for users.

We believe EFRAG could prioritise further, reduce the number of disclosure metrics across its standards and focus on the important information that is likely to be valuable for users. The Taskforce on Nature-related Financial Disclosures (TNFD) proposes an interesting distinction between 'assessment metrics' and 'disclosure metrics', recognising that what gets disclosed is only a sub-set of what gets analysed by the company. For example, in ESRS G2, on business conduct, AG 13 provides an example of reporting on anti-corruption training, with details provided regarding required scoring thresholds for different levels of staff (e.g., 80% or 90%). This is perhaps less informative than how the company evaluates the success of their training programs.

The complexity of obtaining appropriate input data from non-EU entities within a company's value chain should also be taken into consideration. Some aspects of the standards may be better suited as 'comply or explain' rather than requirements. For example, many of the pressure and impact metrics prescribed in ESRS E4 on biodiversity and ecosystems require significant efforts in terms of "on-the-ground" data collection in geographies and jurisdictions where such information may not be readily available.

EFRAG could also modify certain metrics to ensure greater harmonisation of standards. For example, in disclosure requirement E1-9 on Scope 3 GHG emissions, ESRS requires a somewhat different breakdown than the GRI standards and the ISSB's exposure draft on climate-related disclosures. Small adjustments could benefit both users and preparers of the information.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

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