



NORGES BANK
INVESTMENT MANAGEMENT

European Commission
Technical Expert Group on Sustainable
Finance

Date: 08.03.2019

EU Technical Expert Group's report on the taxonomy

We refer to the report on the *taxonomy*, published by the European Union (EU) Technical Expert Group on Sustainable Finance (TEG) in December 2018, and we appreciate 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 managing the Norwegian Government Pension Fund Global. NBIM is globally diversified, with a market value of 8,256 billion kroner at 31 December 2018. The management mandate from the Norwegian Ministry of Finance requires NBIM to invest between 30 and 60 billion kroner in dedicated environment-related mandates. We have developed our own methodology to define the universe for environmental investments.

As a long-term investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms. Therefore, we have an interest in measures that may contribute to an efficient transition to a low-carbon and more resource efficient economy.

We have expressed our support for the European Commission's work on sustainable finance in previous responses to consultations. In particular, we welcome its efforts towards more accurate, material and comparable company disclosures, including quantitative metrics (e.g. greenhouse gas emissions, energy consumption, share of carbon assets). Investors such as NBIM rely on company sustainability reporting for their analyses.

Developing a taxonomy is a complex exercise and we support the overall approach chosen by the TEG. The draft taxonomy builds on existing classifications where possible and on sectoral experts' input. This will contribute to the taxonomy's workability. For the final taxonomy to be applicable, we see the need for further granularity and, in some cases, additional criteria. For instance, we welcome the inclusion of forest activities in the taxonomy. In addition to the initial criteria proposed by the TEG, it might be relevant to consider other aspects of sustainable forest management when evaluating forest activities (e.g. the role of forest-related products in the transition towards a low-carbon economy).



However, we understand that the TEG's work is ongoing and additional categories and criteria are being further developed.

We welcome the objective of having common definitions of economic activities that can be considered environmentally sustainable. In our view, improved sustainability disclosures are a prerequisite for the proposed taxonomy to be operational. At this stage, investors who wish to use the taxonomy may not have access to the relevant data from companies in order to determine whether a company's activities fit into the specific categories proposed by the TEG.

We note that the draft taxonomy classifies sectors in two broad categories: emitters and enablers. While this is a good starting point, it could have unintended consequences if applied in a rigid manner. For instance, some sectors which traditionally would fit in the emitter category might become enablers thanks to technological innovation. As an example, existing gas infrastructures may enable the transport of renewable hydrogen in the future. In addition, all sectors may be considered as indirect emitters if their primary energy supply comes from non-renewable sources. Based on our experience of defining the universe for environmental investments, we believe it is useful to leave room for investment professionals' judgment and knowledge of the sector. We therefore agree with the proposed approach, whereby funds pursuing environmental objectives would not be limited to investing in taxonomy-compliant activities.

To conclude, the taxonomy needs to be detailed enough to be an effective classification system. At the same time, it should be flexible and evolve over time in order to reflect technological and scientific innovation. To strike this balance, it seems appropriate that the taxonomy is updated periodically, with a dynamic process allowing input from companies and investors.

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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