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Management

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Feedback to the European Financial Reporting Advisory Group on the draft ESRS Implementation Guidance documents

We welcome the European Financial Reporting Advisory Group's (EFRAG) work on providing implementation guidance on the key topics of the materiality assessment and value chain, aimed at supporting preparers in their implementation of the EU Corporate Sustainability Reporting Directive (CSRD) as well as users of sustainability disclosures. We are pleased to be able to provide some feedback on both documents, and hope that our investor perspective can be helpful to support EFRAG's finalisation of the guidance.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with 1,375 billion EUR at year end 2023. Of this total, ca 266 billion EUR was invested in the shares of 1,067 companies in 22 EU countries. We are a long-term investor, working to safeguard and build financial wealth for future generations.

We support the important work of the European Commission and EFRAG in promoting better and more harmonised sustainability reporting, as highlighted in previous consultation responses. 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 need consistent, comparable and reliable information from companies on social or environmental issues which are financially material to their business. We rely on information related to the current performance of a company, as well as information on drivers of value that might be predictive of its long-term performance. This information helps inform our investment decisions, our risk management processes and our stewardship activities. We also believe that companies should aim to report on their impact on the environment and society, as outcomes can become financially material over time for long-term and diversified investors like NBIM. Therefore, we see the relevance of the double materiality approach of the European Sustainability Reporting Standards.

We believe that there is some room for improvement in the readability and user-friendliness of the documents. While we understand that EFRAG has been under considerable time pressure to develop this guidance in light of the application of the CSRD for the first batch of reporting entities in FY2024, we would encourage a further simplification of the documents. This is especially important as both guidance documents are going to be most useful for entities who were previously not mandated to produce sustainability reports, and might have not previously conducted a materiality assessment.

Feedback on the Materiality Assessment Implementation Guidance

Regarding the materiality assessment implementation guidance (MAIG), we encourage EFRAG to further reinforce the non-prescriptive nature of the materiality assessment (MA) process. While the document states that the materiality assessment process should be determined by each reporting entity according to its characteristics, business strategy and context (i.e. there is no single solution), the relatively detailed nature of the guidance could create expectations for all undertakings to follow the example provided. We would also suggest the inclusion of additional examples.

Interoperability of sustainability reporting frameworks and standards is essential for global investors like NBIM who have holdings across multiple jurisdictions, with portfolio companies subject to different regulatory requirements. We therefore welcome the reference to the International Sustainability Standards Board and the Global Reporting Initiative standards, which can prove helpful to entities in identifying material sustainability matters, as well as material sustainability information to report on. We believe it would be helpful the use of the SASB standards could be encouraged even further, particularly until the sector-specific European Sustainability Reporting Standards are developed.

We further welcome the reference to the importance of the due diligence process, and would suggest the insertion of a specific reference to risk-based prioritisation as the key underlying concept and driver of materiality assessment in the value chain. This would further align the EFRAG guidance with international due diligence instruments such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Similarly, we welcome the reference to severity and likelihood of impacts, in line with these standards.

Finally, it would be helpful to add a statement to clarify that disclosure of non-material information by reporting entities can hinder transparency and accountability, recognising the fact that it is unlikely that the over 800 data points included in the European Sustainability Reporting Standards will all be material and decision-useful across all preparers.

Feedback on the Value Chain Implementation Guidance

We welcome the value chain implementation guidance, as we recognise that the relevance of the value chain is one of the key features of sustainability reporting vis-à-vis financial

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reporting. The expansion of the scope of information beyond preparers' traditional reporting boundaries is one of the main challenges of the CSRD implementation, and we therefore welcome EFRAG's guidance on this specific topic. Many entities who are subject to the CSRD were not previously in scope of the Non-Financial Reporting Directive, and therefore might not be familiar with the process of assessing value-chain sustainability matters.

We welcome the clarification in paragraph 28 that preparers do not need to disclose information regarding every actor in their value chain, as this would be overly burdensome and extremely challenging. Instead, the focus should rightly be on information relevant to reporting users in understanding the material impacts, risks and opportunities stemming from the value chain. We would suggest that this is highlighted upfront in the document, i.e. in the summary.

The guidance rightly acknowledges that reporting entities might not always have available all the necessary information, and that identification and assessment of impacts can be challenging, especially for those parts of the value chain where the undertaking is unable to trace products and materials (paragraphs 58 and 88). Although the guidance on the steps that entities can take while the transitional requirements are applicable is helpful, we would suggest EFRAG also provides guidance on the role that industry initiatives and similar data-sharing collaboration projects can play. These can support preparers in overcoming some of the challenges linked to data availability in the value chain.

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

Yours sincerely

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Annex – Detailed feedback on the Materiality Assessment Implementation Guidance

Further to our high-level feedback above, we make the below-listed suggestions to improve the readability of the materiality assessment guidance document.

- We suggest adding a figure comparing the materiality assessment process suggested by EFRAG with the process as explained by the International Sustainability Standards Board. The IFRS standard S1 refers to a 2-step process consisting of (1) identification of material risks and opportunities, and (2) identification of material disclosure requirements. The European Sustainability Reporting Standards mandate the 2-step process of (1) identification of material sustainability matters and (2) identification of material information on impacts, risks and opportunities (IROs). However, step (1) in the ESRS process is further broken down into (1a) identification of *actual and potential* IROs, and (1b) identification of *material* IROs. To support interoperability for both preparers and users of sustainability information, we suggest these two processes are compared side-to-side in a new figure.
- Paragraph 4 (disclosure requirements in ESRS 2): we suggest clarifying the difference between *policies, actions, and targets* (on which information shall be disclosed unless the entity does not have any, in which case it needs to state this) and on *metrics*, which are subject to the materiality assessment. We agree that omissions are useful per se; it is important that information is not obscured, and that comprehensiveness does not unduly hinder usefulness of the reported information.
- Paragraph 29 (transparency and disclosure on the materiality assessment): we suggest clarifying that transparency on the judgment exercised by the reporting entity does not imply disclosure of the quantitative and qualitative thresholds and/or criteria used, i.e. the guidance does not recommend disclosure of the entity-specific thresholds adopted as part of the process.
- Paragraph 35: we suggest introducing a definition of dependencies, and an example of when material risks and opportunities derive from dependencies, or otherwise refer to paragraph 38.
- Paragraph 37: we would encourage EFRAG to justify the statement that for most material impacts, a risk/opportunity related to that impact emerges over time. Relatedly, we suggest the guidance refers to the concept of dynamic materiality, which is often used to illustrate this relationship.
- Figure 1a): we suggest providing an example for each of the three categories, i.e. sustainability matters that are relevant from an impact materiality perspective only, from a financial materiality perspective only, and from both.
- Figure 1b): we encourage EFRAG to simplify the figure and improve its clarity. One option would be to expand the “materiality assessment” box at the centre (which refers to the two steps of (1) identifying material sustainability information and (2) identifying material information). On the other hand, we do not see a strong need for the figure to visualise how the materiality assessment process is linked to business model, strategy and management decisions. While we agree that sustainability

reporting should be closely intertwined to the business strategy and "mirroring" the latter, the figure might be confusing to the reader.

- Figure 1c): we suggest clarifying the three steps in the materiality assessment process within the figure, namely by adding a reference to "step 1", "step 2", "step 3". A "step 1" label could be added to show that the upper part of the figure refers to the identification of actual and potential sustainability matters. The centre of the figure could be labelled "step 2", i.e. identification of material sustainability matters, and the bottom part could be "step 3", i.e. disclosure of material information.
- Paragraphs 36-38: we suggest restructuring this section in terms of (a) financial materiality, (b) impact materiality, and (b) double materiality. We believe this suggested phrasing would be clearer than the current structure, which refers to (a) impacts, (b) risks and opportunities stemming from impacts, and (c) risks and opportunities not stemming from impacts. Furthermore, it would align the wording in the document with Figure 1a) and avoid conveying the potential expectation that the materiality assessment necessarily needs to start from impacts and dependencies.
- Section 2.2 (Understanding key concepts for the materiality assessment): we suggest adding a short paragraph to illustrate how the definitions of sustainability matters with their three granularity levels compare to the corresponding concepts in the IFRS standards. We further suggest adding a short definition of "sustainability matters" upfront in the document.
- Section 2.3 (Criteria to determine the materiality of information): we encourage EFRAG to include a figure to help preparers determine which information is material for reporting purposes, i.e. illustrate the relevance criteria (significance and decision-usefulness). We believe the inclusion in paragraph 50 of language typically linked to financial materiality (i.e. "relevance to primary users") could potentially be confusing, given this section also addresses information which is relevant from an impact materiality perspective. We suggest tightening the language in this paragraph.
- Paragraphs 54-55: we suggest better clarifying how preparers can the use the filters for materiality of information when determining what to report for (1) policies, actions and targets (whether this should apply only in respect to the granularity of information) and (2) metrics.
- Paragraph 64: we suggest adding an explicit step on the identification of material information, before Step D - reporting.
- Section 3.2: Actual and potential IROs: we welcome the use of the expression "long list". We suggest this could be used earlier in the document (in the executive summary) and similarly a reference to a "short list" could be included in section 3.3 on material IROs. We welcome that GRI and ISSB are mentioned as useful sources to identify potential IROs, and suggest also referring explicitly to SASB standards in paragraph 72.
- Section 3.5: Role and approach to stakeholders: we welcome the recognition that engagement with stakeholders is not necessary in each step of the materiality assessment process, and that the undertaking may consider appropriate alternatives. Regarding engagement with users, we would encourage EFRAG to suggest prioritisation of shareholders, with a similar aim to aid feasibility.

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- Section 3.6: Deep dive on impact materiality: we support the decision in the guidance not to set specific thresholds for actual or potential negative impacts, as these will be entity-specific and could not feasibly be determined by EFRAG. We suggest merging figures 4 and 5 to illustrate how similar the process is for identifying actual and potential impacts, where likelihood is added as a relevant criterion for the latter (paragraph 119).
- FAQ 8: we suggest adding a reference to SASB standards as a useful source that entities can use when identifying sustainability matters.
- FAQ 9: we encourage EFRAG to clarify the wording, as this could currently be interpreted as requiring entities to set three different time horizons (for *understanding*, *identifying,* and *assessing* sustainability matters).
- FAQ 21: we suggest clarifying the language.

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