CENTRAL BANKING CLIMATE RISK SUMMIT:

RESPONSIBLE INVESTMENT: KEY CHALLENGES AND OPPORTUNITIES

FRANKFURT, DECEMBER 12, 2019

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NORGES BANK

Outline

1 Emergence of sustainable investing as the “new normal”

2 Climate risk and central bank mandates

3 Impact of ESG on investment strategies of sovereign wealth funds and central banks

4 Balancing financial and sustainability requirements – criteria

5 Concluding observations

1 Emergence of sustainable investing as "new normal"

- Climate-related risk and greening the economy key issues also for central banks
  - Climate change is a global challenge, impacting the macroeconomy
  - Climate risk is of significance for financial stability
  - Responsible investment as the *"new normal"*?

- In addressing climate risk, central banks are <u>*not*</u> *"the only game in town"*
  - <u>Mitigation:</u> Prime responsibility lies with governments and fiscal policy to impact relative prices and market behavior
  - <u>Adaptation:</u> Central banks can, within their mandates, take a comprehensive view of all factors impacting the economy and the risks being faced – while upholding market neutrality and risk-based frameworks, and preserving independence

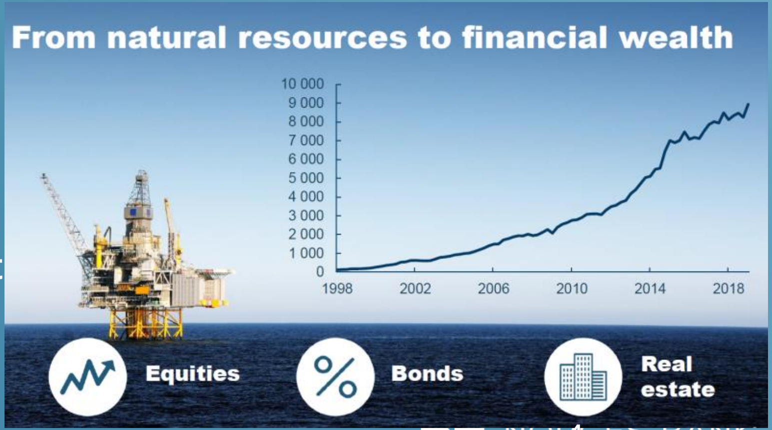
- Importance of international cooperation

2 Climate risk and central bank mission
Norges Bank has two mandates

- **Mission**: Promote economic stability and manage substantial assets on behalf of the Norwegian people

- Central banking operations
  - Conduct monetary policy, monitor financial stability and promote efficient payment systems.
  - The central bank can, within its mandate, promote financial stability by helping to pave the way for the financial sector to include climate risks in overall risk assessments and communicate relevant information

- GPFG/SWF: Separate mandate given by the MoF
  - The investment objective of the GPFG shall be the highest possible return at an acceptable level of risk
  - The Fund shall be managed responsibly and consistent with the said objective

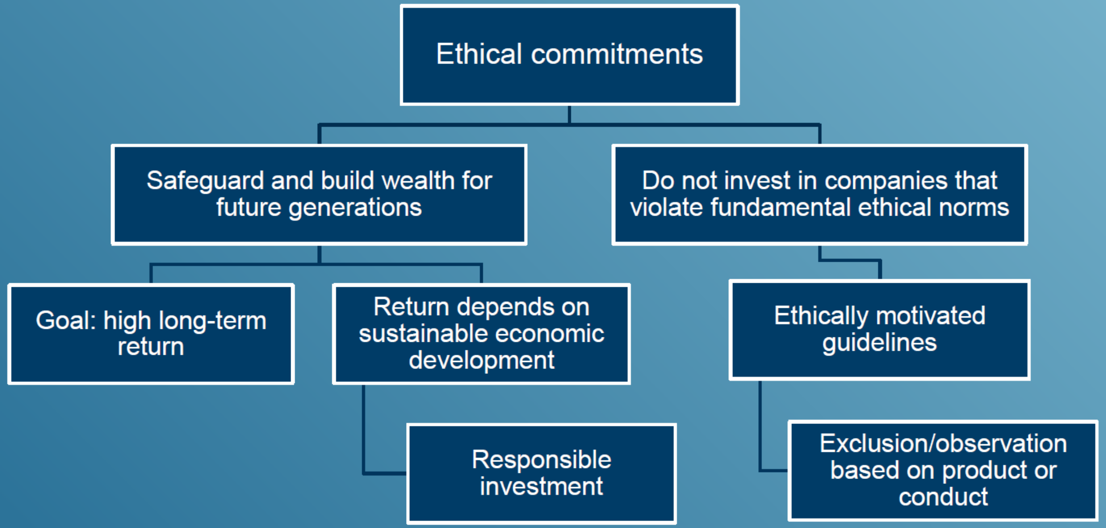


- A feature common to these tasks is identification and management of uncertainty and risk

Overarching considerations on Norway's SWF framework

- GPFG forms part of Norway's economic policy framework as a vehicle for macroeconomic stabilization and intergenerational savings
- GPFG shall not be invested in companies violating fundamental ethical norms
- Need for transparency and standardization to improve access to comparable sustainability data
  - TCFD, EU taxonomy

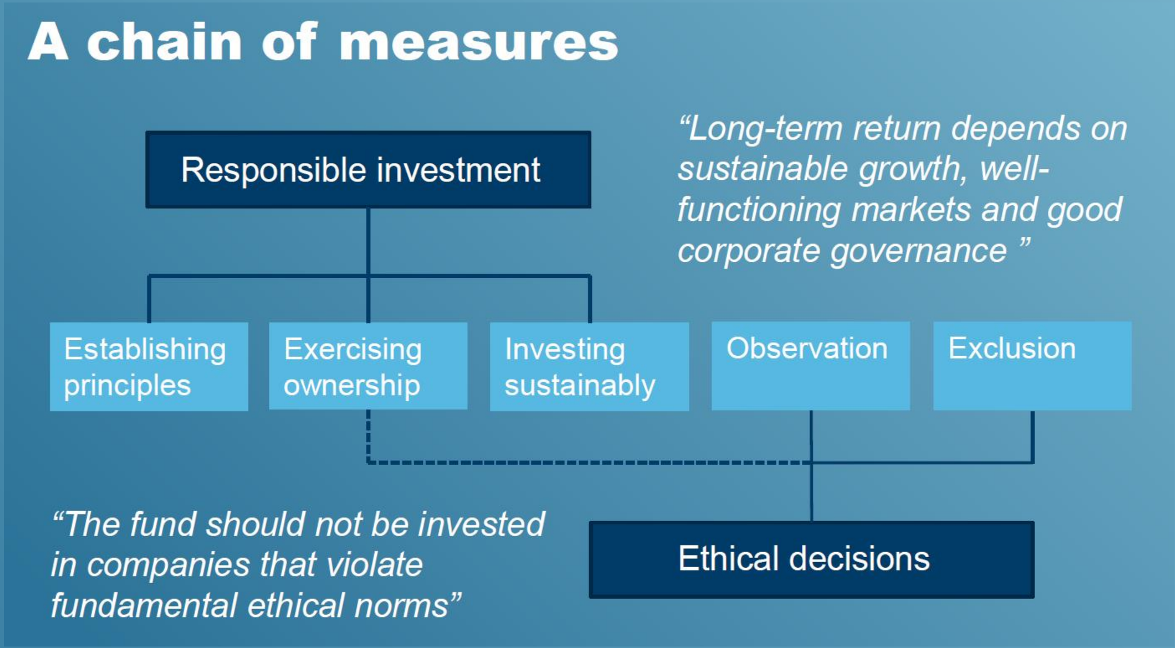
Ethical considerations – a broader view



3 ESG and investment strategies of SWFs and CBs Norway

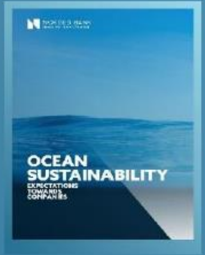
- GPFG/oil fund: Three responsible investment pillars
  - Principles
  - Ownership
  - Composition of investments

- Foreign exchange reserves
  - Partial extension of responsible pillars
  - Liquidity considerations are crucial – to support objectives in monetary policy, financial stability and international commitments (IMF)

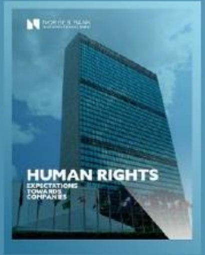


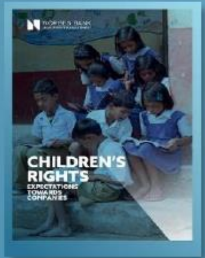
Principles: Expectations and positions

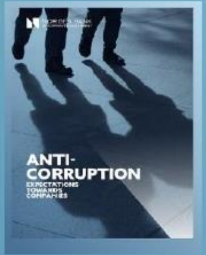
Environmental



Social







Governance

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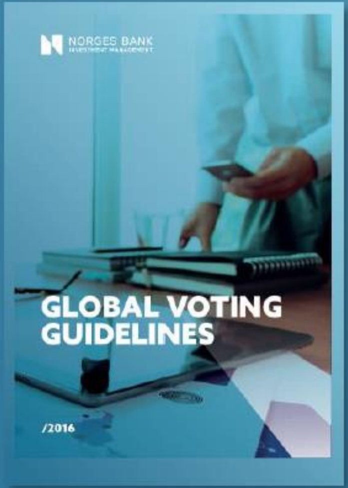
Ownership: Voting and dialogue

We vote at all shareholder meetings



- ✓ 11 287 shareholder meetings
- ✓ 113 546 resolutions

Three categories of company dialogue

- **Dialogue on strategic topics**
  - Sustainability
  - Governance
- **Dialogue on incidents**
  - Corporate actions
  - Risk incidents
- **Dialogue on ethical guidelines**

- ✓ 3 256 meetings with 1 420 companies

Investing sustainably: Environment-related mandates

Recently increased and will also include investments in unlisted renewable energy infrastructure

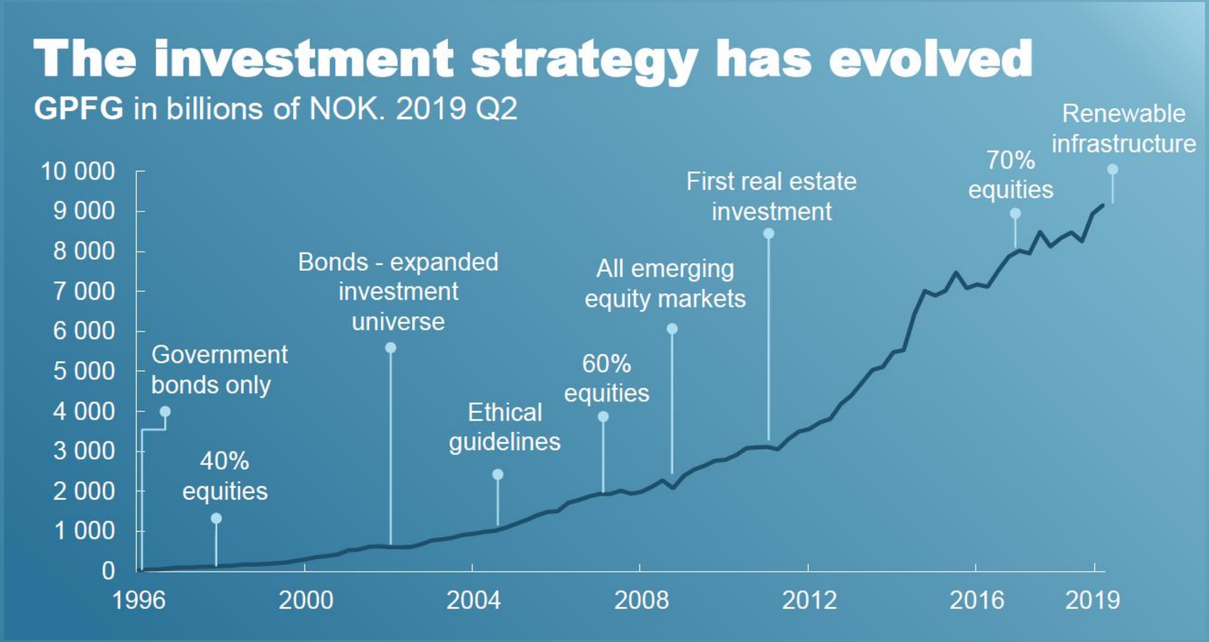
Clean energy

Alternative fuels

Natural resource management

4 Balancing financial and sustainability requirements

- Investment strategy over time
  - From bonds to stocks and real estate
- From traditional market considerations to include ethical guidelines
  - Environmental and climate risk considerations introduced from 2006
- Environmental-related investment mandates introduced from 2011
  - Renewable energy infrastructure from 2020



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Responsible investments and ethical-based criteria

- Criteria for assessing the suitability of available products and services
- Norges Bank's exclusion decisions are based on recommendations from the Council on Ethics (an independent Council appointed by the Ministry)

Ethical exclusions – guidelines

"The fund should not be invested in companies that violate fundamental ethical norms"

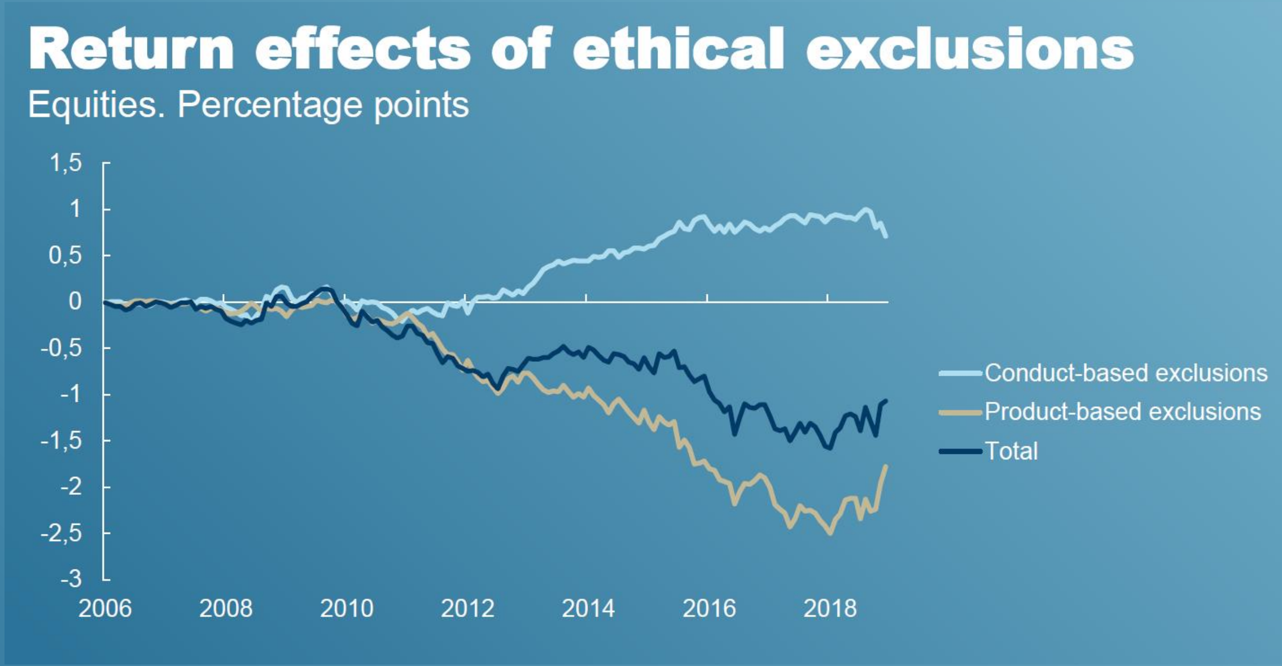
- Product-based
  - Thermal-coal mining or coal-based power production
  - Tobacco
  - Specific weapon types
- Conduct-based (examples)
  - Severe environmental damage
  - Greenhouse gas emissions
  - Human rights violations
  - Gross corruption

➢ Established by the Ministry of Finance, on behalf of the Storting (Norwegian parliament)

Impact of ethical-based criteria

- Ethical exclusions are not based on financial risk considerations, but on whether a company's operations or behaviour is in violation of fundamental ethical norms

- Return effects relative to benchmark w.o. exclusions
  - Conduct-based exclusions (+)
  - Product-based exclusions (-)



5 Concluding observations

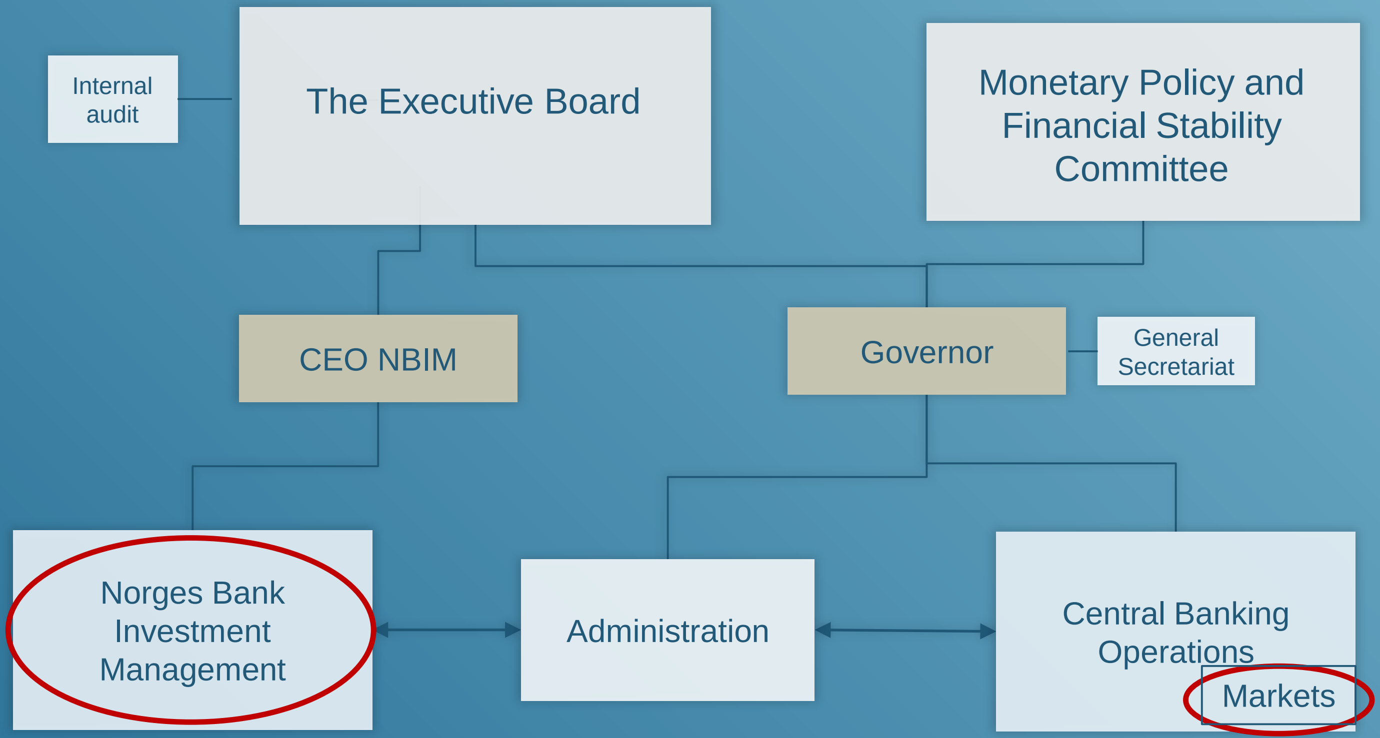
- Great deal of uncertainty related to the size and timing of impact of climate change
  - Avoid simplified analysis / conclusions
- Enhance knowledge-building and integrate climate-related risk
  - Policy-making and investments
- Role of international cooperation
  - NGFS an arena for mutual competence-building and spreading of knowledge
- Central banks
  - Pro-activism and market neutrality
- Preparedness
  - Lower Manhattan after Hurricane Sandy

Extra

- New central bank act
- Reorganization of Norges Bank

Norges Bank at the beginning of 2020

Three major changes in NB's organization: i) New committee for monetary policy and financial stability, ii) NBREM integrated into NBIM, iii) Established shared administrative services



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