



NORGES BANK  
INVESTMENT MANAGEMENT

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## Comments on the draft Tool for Institutional Investors on Managing Climate Risks and Impacts Through Due Diligence for Responsible Business Conduct

Norges Bank Investment Management (“NBIM”) appreciates the opportunity to provide feedback on the OECD Draft *Tool for Institutional Investors on Managing Climate Risks and Impacts Through Due Diligence for Responsible Business Conduct* (“the paper”).

NBIM is responsible for investing the Norwegian Government Pension Fund Global. As a long-term and globally diversified investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms. We have a financial interest in an orderly climate transition in line with the goals of the Paris Agreement.

Understanding and managing financial risks and opportunities related to climate change is important for investors like NBIM.<sup>1</sup> To address these risks, NBIM works at several levels: at market level, by contributing to the development of international standards and setting clear expectations of companies; at portfolio level: climate considerations are factored into our investment decisions, including our dedicated environmental-related mandates, risk-based divestments and ethical exclusions; and finally at company level, where we use active ownership to influence companies’ behaviour and promote sustainable business practices.

We also want to understand and manage the risk of adverse climate impacts that may be associated with our business relationships as defined by the OECD Guidelines for Responsible Business Conduct (“the Guidelines”) and the OECD Guidance for Institutional Investors. These standards form a key part of our responsible investment policy and our expectations of companies on sustainability matters.<sup>2</sup> We expect the boards of our investee companies to fulfil their objective within principles for responsible business conduct. They should understand the

<sup>1</sup> NBIM, *Asset Manager Perspective, Addressing climate-related risks and opportunities as an investor*, 11.08.2021

<sup>2</sup> NBIM’s Expectation Documents can be found here: <https://www.nbim.no/en/publications/expectation-documents/>





broader social and environmental consequences of business operations, set their own priorities to address these, and account for associated outcomes.

We welcome the OECD's continuous efforts in providing practical guidance on how to implement the Guidelines. The OECD, with its draft paper, aims to explain how the OECD due diligence framework can be applied by investors to seek to prevent and mitigate adverse climate impacts on society and the environment associated with the activities of investee companies in their portfolios.

The paper should therefore be understood through the lens of RBC. Nevertheless, the paper seems to have a dual objective: the promotion of RBC on the one hand, and the shift of capital in a 'green' direction ('green finance') on the other hand. This dual objective creates confusion throughout the paper. With the current drafting, the paper might create the expectation that RBC due diligence should guide investment strategies and portfolio allocation decisions. For most investors, this is not the case and might not be possible under their mandates. We would welcome a clear and single focus on RBC.

Overall, the paper seems to rest on a more direct and general causal relationship between investors' decisions and climate impact, than for other responsible business conduct risks. We believe the paper should be aligned with the Guidance for Institutional Investors and use the same understanding of 'business relationships'.

It would be useful for the paper to recognise that there are various types of investors, with different mandates and investments – which present different opportunities and tools in due diligence processes and the use of leverage. For instance, it is important to differentiate between investors that define themselves as impact investors versus responsible investors (they have different mandates), as well as minority shareholders versus controlling shareholders (they have a different level of influence on the investee company).

The paper could identify climate change-related actions or omissions by investee companies deemed irresponsible under the RBC approach. This would help all investors in their due diligence. Investors would also benefit from further guidance on how high emitting companies can best remedy their adverse impacts – there is a need for more guidance on the responsible use of carbon offsets for instance.

Finally, and most importantly, we believe the paper should further develop the engagement and stewardship section, when it comes to company dialogue, voting, shareholder proposals and other mechanisms investors may have to influence companies and hold company boards accountable for adverse impacts. Instead, the paper seems focussed on divestments to mitigate adverse impacts. It is worth highlighting that the Guidance for Institutional Investors states that "*divestment should in most cases be a last resort or reserved only for the most severe adverse impacts*". Divesting from assets with high levels of greenhouse gas emissions might reduce the investor's exposure to climate-related financial risk and may also have other financial implications. It would not, however, in itself reduce greenhouse gas emissions (and therefore the adverse impact on society and the environment). Divestment would also prevent the investor from engaging with the company to encourage positive change in how it mitigates adverse impacts.





The question of how climate change should be understood in the RBC framework is an important and complex question, which should perhaps rather be discussed in the context the ongoing stocktaking exercise and potential official revision of the OECD Guidelines.

Yours faithfully,

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