DET KONGELIGE
FINANSDEPARTEMENT

*Royal Ministry of Finance*

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**The European Commission's renewed sustainable finance strategy – Norwegian position**

We refer to the European Commission's consultation on the renewed sustainable finance strategy and welcome the opportunity to contribute our perspective.

The Norwegian government welcomes the leadership the European Commission has shown in the area of sustainable finance. We have endorsed the objectives of the original sustainable finance action plan launched in 2018, and in March this year Norway joined the International Platform on Sustainable Finance (IPSF). In our view, the three pillars of the renewed strategy as outlined in the consultation document is a relevant approach.

The COVID-19 pandemic and the resulting actions in public policy and private behaviour have caused a major shock to the global economy. In the current situation, national authorities are preoccupied with responding to the COVID-19 developments and their economic and financial impact. Strong multilateral cooperation and co-ordination is paramount to address the global nature of the shock and leverage the impact of national policy action. In this unprecedented situation we should be mindful of our longer term objectives. This comprise allowing for structural changes, and not losing sight of the crucial need to continue cooperation across nations to address the global challenge of climate change to meet agreed goals.

In the following we would like to elaborate on some topics in addition to our input to the specific questions in the consultation document.

*Corporate disclosures and the taxonomy*
In order to channel capital into sustainable investments, it is essential that financial market participants are able to make accurate assessments of ESG risks. Further efforts to make adequate data available to underpin responsible investment, and assessment of and integration of climate-related risks with other risk factors, form a crucial basis for proper market pricing of assets. Furthermore, sound and robust assessments of risks related to sustainability issues, and in particular environmental impact and climate change, are important for the functioning of the financial market as a whole and for financial stability. Sound risk assessments are necessary in order to evaluate the exposure and robustness to these risks both at entity level and for the financial system as a whole. Relevant and high quality corporate reporting in this area is a prerequisite.

We note that the revision of the Non-Financial Reporting Directive (NFRD) is aiming to address the weaknesses in current practices and increase the level of reporting requirements. The development of future reporting standards is pivotal to address sustainability issues in the financing of the companies and markets. While we welcome the revision of the NFRD, any future reporting standards for non-financial information should ideally be developed in a global context to ensure a level playing field and a high degree of reliability and comparability of such information. We would therefore welcome further international cooperation and alignment of regulatory initiatives related to taxonomies and disclosures in forums such as the IPSF.

Increased demand for green investment alternatives increases the risk of green-washing. The development of a taxonomy that clearly sets out categories of activities based on specific criteria and increased reporting requirements on sustainability, may reduce the risk of greenwashing. We agree with the TEG's view that classification of activities that are most exposed to the transition to a low-carbon economy due to their current negative environmental impacts, could serve as a useful tool to identify and manage climate- and environmental risks, lower the exposure to these activities, and ultimately channel financial flows toward more sustainable activities.

However, it is important to ensure that the information provided in response to any new reporting requirements is relevant, material and useful, taking into account the additional burden this puts on the reporting entities. Where possible, reporting requirements should be coordinated across regulatory frameworks in order to minimize the burden for companies. Furthermore, reporting requirements related to the taxonomy and labelling schemes should be proportional in order to avoid undue burden on SMEs.

*Prudential regulation*

In order to safeguard financial stability, the prudential framework and capital requirements should be risk based. It is therefore important to develop the prudential framework in order to capture any changes in risk, or to more correctly identify climate-related risks, and we support EBA's ongoing efforts as outlined in its action plan. We would however like to stress that the capital adequacy framework should not be used to promote particular capital allocations, including the financing of green assets, as this could be detrimental to financial stability and the resilience of individual financial institutions. Any changes to the prudential regulation need to be properly assessed to ensure that they are financially sound.

*Biodiversity loss and environmental risk*

As highlighted in consultation document, there is a growing negative impact of biodiversity loss on companies' profitability and long-term prospects. The Norwegian government supports the ambition of the Commission in better reflecting the growing importance of biodiversity loss and environmental risk in the renewed strategy.

Firstly, we support that the importance of biodiversity and ecosystem services is acknowledged in the EU Taxonomy. Developing ambitious criteria for sustainable economic activities, covering all dimensions of sustainability, is a welcomed step towards integrating climate and environment in the sustainable finance agenda. Secondly, we would support measures at EU level to further develop the methodology of evaluating nature risk. The development of methods in quantifying and systemising nature loss as a source of financial risk is less developed compared to climate change. However, there is an increasing acceptance of the fact that nature loss and degradation constitutes a threat to financial stability. Increased public awareness and stricter regulatory measures are expected to lead to more systematic reporting and accountability throughout the value chain, including the financial sector.

Yours sincerely,

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*This document has been signed electronically and it is therefore not signed by hand.*