Norges Bank
Investment
Management

ESG Data and Ratings Working Group

Date: 05.10.2023

Draft Code of Conduct for ESG Ratings and Data Product Providers

We refer to the ESG Data and Ratings Working Group's consultation on the Draft Code of Conduct for Environmental, Social and Governance ("ESG") Rating and Data Product providers. We appreciate the opportunity to provide our investor perspective.

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 12,429 billion Norwegian kroner at year end 2022, 51,7 billion of which invested in the shares of UK companies.

As a long-term and global investor, we consider our return to be dependent on sustainable development in economic, environmental and social terms. We therefore need information on companies' exposure to sustainability risks and opportunities, how these are managed, and relevant performance metrics. Our internal analysis of portfolio ESG risk draws on the metrics and indicators underlying ESG ratings, rather than the ratings themselves. While we do not use individual ESG ratings directly to make investment decisions, we consider them a useful complementary source of information for risk management and stewardship activities.

We welcome the work undertaken by the ESG Data and Ratings Working Group (DRWG) in developing an industry code of conduct aimed at encouraging best practices on transparency, quality and governance of ESG ratings and data. The market for ESG ratings is global and many providers operate across borders, so we welcome the strong alignment of the DRWG work with the 2021 recommendations of the International Organisation of Securities Commissions (IOSCO), which will facilitate interoperability with the regulatory frameworks being put in place by other jurisdictions. We support the global harmonisation of regulatory regimes for ESG rating providers, and the development of a global code of conduct which can provide the baseline for such jurisdictional regulatory regimes.

We support the structure of the Code around the key outcomes of good governance, systems and controls, management of conflict of interests and transparency. We believe in particular that increased transparency on ESG ratings can enhance pricing efficiency and the well-functioning of markets. The diversity in the assumptions, objectives and methodological approaches used by rating providers, might not always be apparent to stakeholders, which can cause ESG ratings to be misinterpreted. We support Principle 4 and concur that improved transparency on methodologies would enhance overall trust and confidence in their

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use, benefiting investors while also enhancing market integrity, risk pricing, and capital allocation. Providers should publicly disclose their methodologies, data sources, and the weights used to generate overall ESG ratings. Providers should publish information on the measurement objective of the ESG ratings. This requirement could be edited to include an explicit reference to the chosen approach to materiality, which could help users better understand what a rating seeks to achieve. We welcome the suggestion to disclose the criteria used to assess the entity or company, the KPIs used to assess the entity against each criterion, the relative weighting of these criteria, scope of business activities covered, and principal sources of information used in the assessment including industry averages or estimations. We suggest a reference is also added to disclosure of whether the ESG rating is a relative assessment of an entity compared to its peers or an absolute score, together with disclosure of what constitutes a peer group if the rating is expressed in relative terms.

We support Principle 1 on good governance and principle 2 on securing quality, notably the reference to sufficient resources and the recommendation for providers to use publicly disclosed data sources wherever possible. We believe that ESG rating providers should have appropriate systems and controls in place to detect and correct errors, and adequate resources to ensure ratings quality. We also support the recommendation that providers regularly review the relevant methodologies and communicate changes made to the latter together with the potential impact of these changes; this disclosure should cover impacts on the quality, coverage and distribution of ratings.

We believe that ESG rating providers should have policies and procedures in place to manage conflicts of interest, including functional separation of business units assigning ESG ratings and providing advisory services to rated entities. We therefore support Principle 3 and the importance of identifying, managing and disclosing conflicts of interests that may compromise the independence and integrity of operations. Best practice could include transparency on providers' governance and resources, including funding models and fee structures. Finally, we support Principle 6 on engagement which recommends efficient information procurement and engagement between rating providers and rated entities, including a "right to reply" aimed at correcting possible factual errors or omissions.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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