

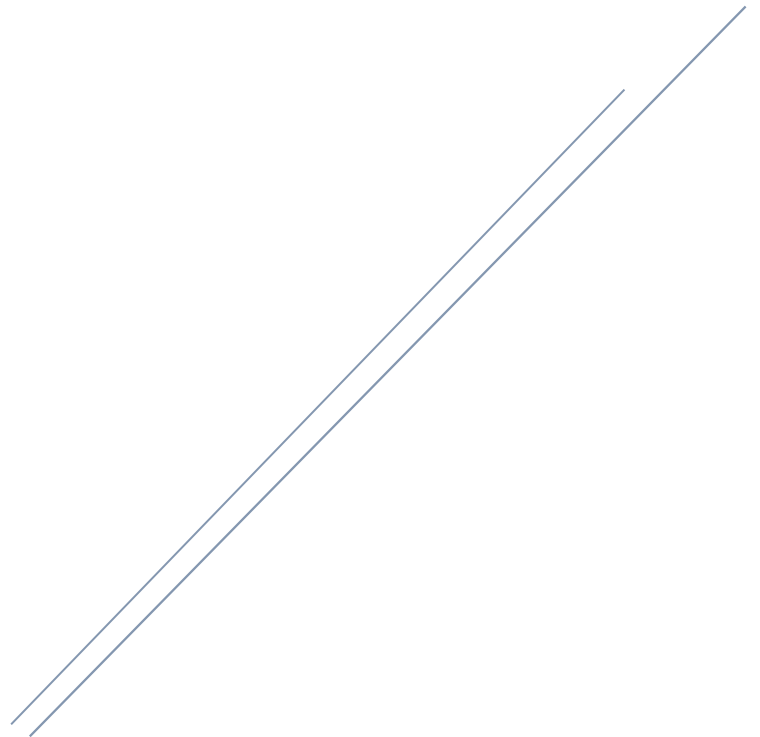


Association Européenne des Institutions Paritaires
European Association of Paritarian Institutions

EC PROPOSALS FOR AN EU TAXONOMY & DISCLOSURES RELATING TO SUSTAINABLE FINANCE

AEIP Position Paper

4 March 2019



European Association of Paritarian Institutions- AEIP

General remarks

Paritarian institutions contribute to pension adequacy while investing on the long term

Paritarian institutions of social protection play an important social role in the EU economy, as they contribute to better adequacy for the beneficiaries of different social protection systems across Europe. The fact that paritarian institutions are jointly managed by social partners guarantees that the interests of all stakeholders are adequately reflected in collective agreements. Moreover, paritarian institutions of social protection are key institutional investors and contribute to fostering long-term investment and economic growth.

We invite the EC to take a step by step approach and consider social and governance aspects beyond environmental aspects in future works. After the works on the environmental factor, we would also like to stress the importance of the social factor in sustainable finance. Poor social protection, limited social inclusion and bad working conditions present societal risks that damage financial stability and the continuity of paritarian institutions (e.g. pension funds or healthcare insurance institutions). This is why more attention should be paid to drivers of social impact investment after finalizing the works on the 'E'.

Key messages on taxonomy

1. ***AEIP supports the development of a taxonomy, as a necessary element for sustainable finance.***
At the same time, it is important to stress that paritarian funds aim at maximizing returns for quality social benefits under a long-term perspective.
2. ***The construction of the taxonomy should follow widely accepted scientific methods, as these are reflected in the work of the Commission's Technical Expert Group (TEG).*** As a result, the outcome of the current legislative proposals on sustainable finance should refer in a clear manner to the requirements and principles used by the TEG, which define the sustainability of economic activities.
3. The taxonomy should be based on the ***following principles***:
 - Be measurable and efficient
 - Display enough flexibility in order to be used as a guide
 - Easy to be put in practice
 - Aligned with existing practice
 - Be updated, if evidence provides for new insights
 - Bringing no additional administrative burden
4. ***A European classification system needs to take into account the existing international frameworks on sustainability and ESG factors,*** such as the UN Sustainability Development Goals, with the aim to be aligned with high-standards at the global level.
5. ***The Commission's proposals should move side by side all along the legislative process, following a holistic approach.*** This is all too relevant given the substantial interlinkage of all the legislative proposals in the Commission's sustainable finance package.

Key messages on disclosures relating to sustainable investments and sustainability risks

6. ***AEIP is in favour of increasing transparency regarding the integration of sustainability risks,*** however we want to make sure that the specific nature and social role of IORPs and paritarian insurers is understood and taken into account.
7. ***The IORP II Directive is already a sufficient and appropriate framework for disclosures relating to sustainability risks and investments, therefore AEIP objects delegated acts for the IORP II Directive.***
8. ***The principle of proportionality must be respected when designing the appropriate disclosure measures,*** due to the evident national variety and wide differences between pension funds of different sizes throughout Europe. Especially with regard to smaller pension funds, any new legislation should take into account that these might not be able to support additional costs linked with novel requirements.
9. ***The new Regulation should not lead to substantial additional costs and administrative burden,*** but it should rather aim for a balanced approach based on the “cost-benefit trade-off” of the various stakeholders.
10. **The decision for the development, elaboration and application of ESG policies should be left to the discretion of the management Board of institutional investors.**
11. **The inclusion of a definition for sustainability risks could underline the long-term risks related to the returns of a pension product together with the economic activities which have a negative impact.**
12. **AEIP suggests a longer transitional period for the implementation of the Regulation given the difficulties for institutional investors to assess impacts and disclose investment information relating to ESG factors.**

Further analysis of our key messages

Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment

- 1. *AEIP supports the development of a taxonomy:*** AEIP would like to point out that paritarian funds invest with the main purpose of maximizing returns at an acceptable risk for quality social benefits, reflecting a long-term commitment approach and engagement with their schemes members. AEIP supports the development of a taxonomy for sustainable activities. We consider it a necessary element for sustainable finance. It will ensure a better and more aligned framework for the integration of well-thought criteria for the environmental sustainability of investments. A properly designed taxonomy could allow for better information, comparability and transparency regarding to sustainable investments. As a result, it has the potential to lead to increased awareness, assuring commitment, self-organization and better decisions from the side of institutional investors and investees, but also from the side of the companies and sectors we invest in.

- 2. *The construction of the taxonomy should follow widely accepted scientific methods:*** We would like to stress that any attempt to properly construct such a framework should be based on scientific evidence and methods as well as hard facts. In that regard, AEIP encourages explicit reference to the workings of the Commission's Technical Expert Group (TEG) on Sustainable Finance -and later on the Platform for Sustainable Finance- as inclusive expert organs with transparent methodologies, that have the capacity to enrich and feed the technical aspects of the debate. Therefore, the outcome of the current legislative proposals on sustainable finance should include and refer in a clear manner to the requirements and principles used by the TEG, which define the sustainability of economic activities.

- 3. *What kind of taxonomy would be helpful for us?***
We are convinced that the taxonomy should be based on the following principles:
 - Be measurable and efficient
 - Display enough flexibility in order to be used as a guide
 - Easy to be put in practice
 - Aligned with existing practice
 - Be updated, if evidence provides for new insights
 - Bringing no additional administrative burden

- 4. *EU Taxonomy needs to take into account the existing international frameworks on sustainability and ESG factors:*** The upcoming EU framework for facilitating sustainable investment should take into consideration the existing international initiatives, among which the UN Sustainability Development Goals (SDGs) hold a prominent place. The EU taxonomy should therefore aim for an aligned approach in order not only to create an adequately sophisticated framework, but also a system which at the same time allows for meaningful exchanges and learning from other regulatory frameworks, including stewardship codes.

5. ***The Commission’s proposals should move side by side all along the legislative process, following a holistic approach:*** Given the substantial interlinkage of all the legislative proposals in the Commission’s sustainable finance package, AEIP requests that their advancement should happen side by side, in order to ensure a truly holistic EU framework regarding sustainable finance.

Proposal for a Regulation on disclosures relating to sustainable investments and sustainability risks

6. ***AEIP is in favour of increasing transparency regarding the integration of sustainability risks:*** AEIP fully supports the intention of the European Commission to increase transparency on the integration of sustainability risks. At the same time, it agrees with the Commission’s overarching goal to limit greenwashing. We do agree that the inclusion of ESG factors has a material impact on the long-term risk and return profile of investment portfolios. Their integration into the investment decision-making process would help institutional investors to have a better understanding of risk mitigation and would assist in long-term value creation. As long-term institutional investors, AEIP members agree that all types of investors should consider sustainability factors in their investment decision-making processes. In that sense, AEIP also supports the European Parliament’s point of view that any disclosure obligations should apply to both investor and investee companies. Nevertheless, it should be ensured that the specific nature of IORPs and paritarian insurers is taken into account as well as that they are not treated as standard financial market participants when the new rules are implemented.
7. ***The IORP II Directive is already a sufficient and appropriate framework for disclosures relating to sustainability risks and investments:*** AEIP would like to stress that the IORP Directive provides only for a minimum harmonization of the activities and supervision of IORPs and this feature has been maintained after the Directive’s recent revision in 2016. The EU decision-makers agreed that IORPs are imbedded in Social and Labour Law of the competent MS.

AEIP is against delegated acts for the IORP II Directive: The current proposal (in its article 10) authorizes the Commission to adopt delegated acts which would specify the ‘prudent person’ rule with respect to the inclusion of ESG factors in internal investment decisions and risk management processes in IORPs. In our opinion such delegated acts disregard and go further than the existing ESG provisions in the IORP II Directive, which already provide for a sufficient regulatory basis. Since the IORP II Directive has been transposed into national law by 13 January 2019, AEIP considers necessary to have more time –during the implementation phase- to properly gather evidence and knowledge on how the various IORPs have been coping with the inclusion of ESG factors in their responsibilities relating to prudential governance. Moreover, in light of the evaluation process of the IORP II Directive foreseen to take place by January 2023, it is of utter importance to leave the necessary leeway to occupational retirement institutions to internalize the prudential rules of the 2016 Directive. In that sense, the additional regulatory requirements that the Commission’s delegated acts risk to erode an established process, which was recognized and approved by a big number of stakeholders.

- 8. *The principle of proportionality must be respected:*** Due to the evident heterogeneity of pension funds throughout Europe, the principle of proportionality should be a main consideration when designing the appropriate disclosure measures. That said, AEIP believes that the proportionality principle must be taken into account while having in mind that smaller pension funds might not be able to support additional costs linked with these novel requirements. In addition, exactly because of the existing heterogeneity in the field, any obligations for ESG disclosure should be more nuanced, most notably with the introduction of a “comply or explain” approach. The principle of proportionality is already mentioned in an implicit manner in Art. 10, thus revealing the legislative proposal’s approach: “Those delegated acts shall take into account the size, nature, scale and complexity of the activities of the IORPs and of the risks inherent to these activities”.
- 9. *The new Regulation should not lead to substantial additional costs and administrative burden:*** The involvement of external managers and data collection agencies for this kind of tasks seems to be a standard practice in various member states. Consequently, the criteria should adopt a balanced approach based on the “cost-benefit trade-off” applicable to the various stakeholders.
- 10. *The decision for the development, elaboration and application of ESG policies should be left to the management board of institutional investors:*** AEIP agrees with the integration of transparency rules for ESG factors related to the decision-making and investment choices of institutional investors. Nevertheless, the latter should have the discretion to choose the form and way of such integration, which would reflect the participants’ preferences.
- 11. *Inclusion of a definition for sustainability risks:*** The inclusion of a sustainability risks definition, such as the one mentioned in Art. 2 (sa) (a) of the European Parliament’s Report, could underline the long-term risks related to the returns of a pension product together with the economic activities which have a negative impact. Furthermore, it can serve as an evolving tool that is capable of identifying emerging risks together with their adverse repercussions.
- 12. *Longer transitional period for the implementation of the Regulation:*** In addition, given the difficulties for institutional investors to assess impacts and disclose investment information relating to ESG factors, AEIP suggests a longer transitional period for the implementation of the Regulation. This will also grant more time to occupational pension funds to exchange experiences and learn from best practices regarding the disclosure of ESG factors as already stipulated in the IORP II Directive, thus acquiring real know-how before the implementation of the Regulation.



AEIP Disclaimer

AEIP represents the European Paritarian Institutions of Social Protection in Brussels since 1997. The Association gathers 22 leading large and medium-sized Social Protection Management Organizations which equally represent the employees and the employers through a joint governance scheme; plus 39 affiliates from 22 countries

AEIP represents its members' values and interests at the level of both European and International Institutions. In particular, AEIP - through its working groups - deal with EU coordinated pension schemes, pension funds, healthcare schemes, unemployment schemes, provident schemes and paid holiday schemes. The final goal of AEIP is to achieve pan-European paritarian schemes of social protection.

Owing to the quality of its members and to the delegation of powers conferred to its Board, AEIP aims at becoming the leading body for the promotion of balanced paritarian social protection systems in Europe. AEIP promotes and develops programs and orientations aiming at the sustainability of paritarian social protection systems at local level taking into account the national specificities aiming at ensuring social cohesion in Europe.

Based thereon, AEIP prepares recommendations, proposes local programs and influences European decisions to safeguard and promote the interests of its members. AEIP thinks ahead and anticipate modern paritarian social protection systems that take into account changing economic and societal pattern. It furthermore seeks to find a new balance between and across generations.