



AEIP STATEMENT REGARDING THE REGULATORY TECHNICAL STANDARDS ON SUSTAINABLE FINANCE DISCLOSURES REGULATION

Follow up to the meeting of AEIP with DG FISMA

February 2021

European Association of Paritarian Institutions - AEIP

Introduction

We would like to thank the Asset Management Unit of DG FISMA and its Head, Mr. Gentner, for their frank discussion and open exchange regarding the RTS on the Sustainable Finance Disclosures Regulation. AEIP and its member organizations appreciate the fact that they had the opportunity to communicate their point of view and explain the particularities and specific challenges of occupational pension funds in implementing the requirements of the Regulation and its forthcoming Level 2 legislative measures. As a follow up to our meeting with DG FISMA, we would like to make a concise overview of the points that we have brought forward, with the aim to assist the EU policy regulators to better understand the particular characteristics of IORPs but to also address these concerns in their future legislative work.

Main messages

IORPs are pension institutions with a social purpose that provide financial services. They are responsible for the provision of occupational retirement benefits and should therefore meet certain minimum prudential standards with respect to their activities and conditions of operation, taking into account national rules and legislation as well as institutional traditions.

However, such institutions should not be treated as purely financial service providers. Their social function and the triangular relationship between the employee, the employer and the IORP should be adequately acknowledged and supported, **since they hold an important social purpose, as clearly stated in recital 32 of the IORP II Directive.** These funds are set aside from the employer's balance sheet, in order to give to employees an extra protection against the default of the employer. Importantly, IORPs do not sell financial products and execute the pension scheme that has been designed and agreed by social partners. Second pillar pension funds often have a paritarian board and management, allowing for a balanced representation of both employers and employees. All in all, IORPs use financial market returns to obtain their main goal, which is to deliver pensions to their members and beneficiaries.

AEIP and its member organizations would like to stress that pension funds are different from any other financial market player. IORPs have no shareholders, are 'not-for-profit' and do not sell products, since employees have a mandatory affiliation to the pension scheme because of their employment relationship. Second pillar pension schemes are set up and managed jointly by social partners while additional costs are borne either by employers, by increasing their pension contributions, or by employees, by decreasing their benefits. It is important to stress that the IORP landscape across the EU is very heterogeneous in terms of scale, type of pension scheme, social and labour law, institutional design as well as contract obligations. Nevertheless, most IORPs in the EU are small in size, which means that often they do not even have personnel of their own, so they use sponsor resources and outsource their operational and investment services. The current low yield environment makes them sensitive to additional fixed costs, apart from the existing investment costs, administration costs, governance costs as well as communication costs. So due to all the above, it is important that IORPs enjoy a more proportional implementation of ESG disclosure rules.

The RTS on disclosures can have negative repercussions on the relationship of PFs with their members, since the requirements risk of creating an overload of “push” information to the individual. Pension communication is a complex issue because of the existence of multiple factors which have an impact, such as the benefit at retirement age, the current provisions, the impact of inflation, the impact of a future salary increase, the impact of the financial markets as well as the combination of communication on second pillar pensions with this of the first and third pillar. Hence, we strongly believe that the communication approach should be kept simple in order to maintain the trust of members. For those who are interested, more detailed or technical information could be accessible, through the proper layering of information.

Despite the fact that IORPs are communicating about a pension product and not an investment product, pension scheme information is diluted due to the sustainability disclosures: several pages of information on investments in particular, apart from the necessary information regarding the scheme, will be overwhelming for the reader. But also in regards to pre-contractual information towards an employee, AEIP would like to stress that the current legislative framework would lead to a distorted understanding of IORPs’ engagement with sustainable finance due to proportionality reasons, transmitting the message that the sector does not consider ESG investments - something which is not true. In addition, it is important to underline that a PF affiliate on the one hand cannot choose the pension scheme nor the pension fund since it is already defined by social partners, and on the other hand there is no possibility for opting out since affiliation is mandatory. Investment policies are mostly decided at the level of the board of the pension fund, thus excluding a direct investment choice for the individual. Bearing in mind the specific way that our sector operates as well as the particularities of pension funds, we stress that the principle of proportionality must be ensured in practice for IORPs.

Additional points

AEIP would like to express its concern over the implementation timeline, since most IORPs will not be able to achieve compliance with the SFDR within the timespan between the adoption of the Regulatory Technical Timeline and the 11 of March 2021.

Furthermore, the main challenge for IORPs is ESG data availability, comparability and quality of ESG data, also when implementing sustainability regulations/trajectories (Tax/DR/NFRD). The efforts of the EU should focus on developing an international taxonomy and aligning international reporting of sustainability data. The latter preferably is realized through accounting standards and a reviewed Non-Financial Reporting Directive (NFRD) can be an important stepping stone. The creation of a European Single Access Point (ESAP), as described in the recently published Capital Markets Union Action Plan, can be another important initiative for enhancing data availability. Moreover, the EU (or other international organizations) could take a leading role in setting up a centralized database with the sustainable data on a broad range of companies. This data should be made available to investors at no cost. All reporting requirements must be aligned with the information available in this database.



AEIP Disclaimer

AEIP represents the European Paritarian Institutions of Social Protection in Brussels since 1997. The Association gathers 27 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.