Association Européene des Institutions Paritaires
European Association of Paritarian Institutions

Revision of the Sustainable Finance Disclosure Regulation

AEIP input on European Commission Call for Evidence on the Revision of EU rules on sustainable finance disclosure

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European Association of Paritarian Institutions- AEIP

The European Association of Paritarian Institutions (AEIP) appreciates the opportunity to provide its views on the upcoming European Commission revision of the Sustainable Finance Disclosure Regulation (SFDR).

In light of the recently proposed Omnibus legislation on sustainability rules, **AEIP expects that the upcoming review of the SFDR will align with the suggested simplification and streamlining amendments to the content of the reporting requirements under the Corporate Sustainability Reporting Directive (CSRD). It is crucial that the renewed level of ambition and regulatory approach to sustainability-related disclosures is also reflected in the review of the SFDR, to ensure consistency with other EU sustainable finance rules.**

Additionally, since the implementation of the SFDR has posed significant challenges in terms of applicability for pension providers, **we also call on the European Commission and other co-legislators to take into account the specific needs and features of pension funds, in order to make the SFDR more suitable for them.**

We advocate for the removal of Articles 8 and 9 as the current set-up of the disclosure rules under the SFDR has made sustainability-related information confusing and difficult to understand for pension fund members and beneficiaries. AEIP welcomes the European Commission intention to explore the introduction of a clear categorisation of financial products that make sustainability-related claims. However, categories should be voluntary, and financial market participants (FMPs) should be allowed to provide sustainability-related information outside the regulatory communication channels of the SFDR when their products do not fall into any category.

In the context of a formal categorisation of financial products, EU legislators should also consider introducing a transition category in a way to recognise the efforts of broadly diversified institutional investors, such as pension funds, which use long-term investment strategies and contribute to transitioning towards a more sustainable and low-carbon economy. Nevertheless, since satisfying specific thresholds would be particularly challenging for financial entities, like pension funds, that normally outsource their asset management, we suggest that FMPs should be given flexibility in choosing how they would meet the categorisation requirements: either considering the total product, or underlying products of their portfolio. For instance, pension funds often invest through mandates and investment funds, which are defined as products under the Regulation. Such a solution would help pension funds, such as IORPs, meet the requirements of this categorisation system.

Moreover, it is key to exclude government bonds from the calculation of threshold values for the transition category as this asset class is often held to meet specific requirements subject to prudential, product-related, sector-specific rules (e.g. hedging or liquidity). At the same time, there is currently no framework to classify government bonds as sustainable. Therefore, having a significant allocation to government bonds makes it more challenging to meet any quantitative thresholds for sustainable investments. The same treatment should be applied for investments in private assets because of the significant challenges in obtaining ESG data for these instruments.

Furthermore, AEIP argues that FMPs should be allowed to report on parts of their portfolio that are invested in products falling within one of the categories. Through this approach, pension funds would have the opportunity to benefit from the categories used by asset managers in their reporting. For example, pension funds could allocate to a mandate for EU-listed equity that is classified as ESG collection, next to an allocation to an AIF that meets the sustainability category or impact category.

AEIP also invites the European Commission to reconsider the horizontal regulatory approach that has been used for disclosure rules under the SFDR. Requiring the same disclosure requirements for all FMPs has led to communication and implementation challenges for pension funds, and has not been helpful for their members and beneficiaries. As opposed to other FMPs, pension funds typically offer only a single product, namely the pension scheme. In most cases, pension scheme members and beneficiaries are subject to automatic or mandatory enrolment, and therefore cannot choose their pension fund, decide on the investment policy or select an investment product. Consequently, pension funds do not have a pre-contractual phase as members and beneficiaries do not make an investment choice. Hence, **pension funds should be exempt from pre-contractual disclosures under the SFDR as this requirement represents a significant reporting burden, and does not provide any added value to prospective members and beneficiaries.**

In particular, IORPs cannot be compared to other FMPs due to the diversified portfolio that they hold. For example, as highlighted in our response[1] to the European Commission targeted consultation on the implementation of the SFDR, *if a pension fund allocates 50% to equities and 50% to government bonds, achieving a 10% taxonomy-alignment in its equity portfolio this would result in a 5% Taxonomy alignment at the product level. Does this imply that the pension fund is less ambitious than another fund that only invests in equity with a 7.5% Taxonomy-alignment? Such comparisons can be misleading and do not provide a fair representation of an IORP's sustainability efforts.*

Given these considerations, **AEIP recommends reconsidering the current horizontal approach and assessing which elements of the SFDR can be better adjusted to different categories of FMPs. The European Commission should take into consideration the specificities and needs of different types of investors and FMPs when reviewing the current rules on sustainability product-related information under the SFDR.**

We are concerned about the use of Principal Adverse Impact (PAI) indicators for product-related disclosures as these detailed information requirements provide limited added value to members and beneficiaries while imposing disproportionate costs for pension funds. As previously explained, such data are not relevant for pension fund members and beneficiaries because they do not make an investment decision based on this information, but they are subject to automatic or mandatory enrolment. **AEIP therefore suggests that these PAI indicators must be removed.**

Finally, we oppose last year's ESAs recommendation (included in the ESAs Joint Report on principal adverse impacts disclosures under the SFDR[2]), of considering other approaches to the threshold of 500 employees for mandatory reporting of the PAI entity-level disclosures. The ESAs suggested a different approach to assess whether investments contribute to sustainability adverse impact could consist of establishing a threshold based on the size of FMPs' investments. AEIP argues that the introduction of a specific alternative criterion on the size of investment entities' assets under management could negatively affect IORPs as these entities would fall into scope more easily and disproportionately compared to other financial institutions. It is also worth noting that, although most pension funds in Europe have fewer than

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[1] AEIP Response to the European Commission targeted consultation on the implementation of the SFDR: https://aeip.net/wp-content/uploads/Contribution91c2161d-8776-468d-b065-1e1b45e455ed.pdf

[2] ESAs Joint Report on principal adverse impacts disclosures under the Sustainable Finance Disclosure Regulation: https://www.eiopa.europa.eu/document/download/53b7f3cf-0b00-4824-bb6e-056c5a9cb514_en?filename=JC%202024%2068%20Final%20Joint%20ESAs%202024%20Final%20Report%20on%20PAI%20disclosures%20%28Article%2018%20SFDR%29.pdf

500 employees, a significant majority of active participants report PAI disclosures on a voluntary basis[3]. **In light of the upcoming revision of the SFDR, AEIP recommends maintaining the current approach, which mandates PAI entity-level disclosures for investment organisations with more than 500 employees, without introducing other criteria.**

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AEIP represents the European Paritarian Institutions of Social Protection in Brussels since 1996. The Association gathers 32 leading large and medium-sized social protection providers, which are managed on the basis of joint governance and equal representation by both employees and employers' organizations (the social partners) in 13 EU MSs.

AEIP represents its members' values and interests at the level of both European and international institutions. In particular, AEIP - through its working groups - deals with EU coordinated pension schemes and pension funds, healthcare, unemployment, provident and paid-holiday schemes.

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balance between and across generations.

[3] For example, in 2024, the AFM (Dutch Authority for the Financial Markets) stressed that 41% of pension providers in the Netherlands (including the largest pension institutions) stated that they do consider PAIs of their investment decisions on sustainability factors. They represent over 80% of active pension participants in the Netherlands. Source: AFM, 2024 (link).