PensionsEurope response to EC consultation on the renewed sustainable finance strategy

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Please, we would be very grateful if you could consider this paper which develops PensionsEurope's position for several questions raised by the Commission, for which it was not possible to include a text in the Commission's online questionnaire.

The main elements of our response can be summarised as follows:

1. The renewed staregy is an opportunity to adopt a holistic approach

- Authorities should now focus their attention on implementation and finetune existing and recently approved regulations to ensure their usability. As many initiatives are underway and/or currently being implemented, the cumulative impacts of current measures need to be carefully assessed and monitored before considering any additional initiatives.
- The sustainable finance framework needs to adopt a holistic approach. As many legislative proposals were developed in parallel, some inconsistencies and gaps have emerged. The renewed strategy should be an opportunity to ensure consistency between all the legislative measures already adopted to make the whole framework work in practice.
    - Scarce availability of quality and comparable ESG data on investee companies. It is important to make sure investors have access to adequate ESG data in order to be able to comply with the new requirements. Standardisation of ESG data is a necessary condition for implementing sustainability in large investment portfolios.
    - Need for global coordination: The EU ESG requirements for investors apply to the entire portfolio. Regulation widely differs around the world. We need harmonisation, action of the EU alone is insufficient.
    - Inconsistencies between the Taxonomy, the Disclosure Regulations and NFRD: implementation calendar, definition of the "do not significantly harm" (DNSH) concept, etc.
- If certain assets are stigmatised and the investment universe is narrowed (brown taxonomy), risks and market inefficiencies may increase. If investors are pushed into certain assets, systemic risk may be exacerbated.

2. With an adequate regulatory framework, IORPs can play an important role in enabling the transition towards a more sustainable environment

- PensionsEurope recommends the Commission to first await the implementation of new legislation to assess whether it is comprehensive enough, before considering new reporting requirements beyond what is currently required by the regulatory framework for pension providers. The Taxonomy and Disclosure Regulations will impose new ESG reporting requirements. Given the underlying data is still missing, it will take time until this implementation has fully settled. In many MSs, NCAs already request IORPs to report on ESG issues in pre-contractual documents, during the accumulation and pay out phases. We are concerned an increase in reporting would add costs without improving members and beneficiaries' ESG awareness.
- The description of the results of the EIOPA stress test for IORPs needs to be nuanced:
    - The percentages describing IORPs' situation are unweighted. Looking at AUM, the vast majority of IORP assets in the sample is invested with ESG risk integration.
    - It is difficult to draw any conclusion from the analysis on greenhouse gas emissions as it used the average of emissions by sector without granularity on the underlying economic activities, so investments in wind and coal energy would give the same kind of exposure, as they both refer to energy production. The exercise benchmarked IORPs' investments against the

average CO_2 exposure of the whole economy, whereas they invest primarily in listed companies.

- As long-term investors, IORPs can play an important role in enabling the transition towards a more sustainable environment. Responsible investing is becoming more mainstream in the sector.
  - The EU can help IORPs to contribute to the transition by ensuring that prudential legislation does not dampen their capacities to invest in the real economy. It is essential to recognise IORPs' diversity and maintain the minimum harmonisation approach at EU level. The main objective of IORPs will remain to achieve good pensions for members and beneficiaries, while increasingly looking to do so through responsible investments. For the Renewed Strategy to be successful, the objective of financing the transition has to be aligned with the objective of paying out pensions.
  - Regulation must recognise the specificities of IORPs and avoid stifling them with inappropriate and burdensome rules. According to the IORP II Directive, IORPs are financial institutions with a social purpose which are often managed by social partners. They are not considered as providers of financial products as such but more as executors of a pension promise by the sponsoring undertaking to its employees. These IORPs have no commercial character and there is no competition between them due to the mandatory nature of the affiliation of members and affiliates. It would be inappropriate to impose to these IORPs the same transparency requirements than those applying to big commercial financial entities. In most MSs, IORPs are very small entities, which makes them very sensitive to any additional administrative burden.
- Under the prudent person rule (article 19), the IORPII Directive specifically allows for the consideration of ESG factors and requires pension funds to take into account the long-term interest of their members and beneficiaries. IORPs are also already required to incorporate ESG factors in their governance and risk management systems.
  - In many countries, members and beneficiaries are represented in Committees, made up of representatives of sponsoring undertakings and employees and which play a decisive role in the decision-making process. This implies that their preferences are already fully taken into account by their representatives when defining the investment policy and risk management framework.
  - We are strongly against mandatory consultation, particularly through surveying, on ESG issues. The costs per member could be significant for very small IORPs that do not have internal capacity to organize such a survey. Boards need flexibility in interpreting and incorporating ESG preferences while a legal survey requirement could lead boards to focus on compliance, rather than outcomes. As mentioned by the High-Level Group on Pensions, it can be challenging to bring together diverging views in a single collective investment policy. Simultaneously integrating ESG issues identified through risk-management and non-financially material issues may expose members to financial risk through lack of diversification.

Contents

SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE 5

SECTION II: QUESTIONS TARGETED AT EXPERTS 7

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE 11
1.1 Company reporting and transparency 11
1.2 Accounting standards and rules 12
1.3 Sustainability research and ratings 13
1.4 Definitions, standards and labels for sustainable financial assets and financial products ... 15
1.5 Capital markets infrastructure 19
1.6 Corporate governance, long-termism and investor engagement 20

2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY 24
2.1 Mobilising retail investors and citizens 24
2.2 Better understanding the impact of sustainable finance on sustainability factors 25
2.3 Green securitisation 26
2.4 Digital sustainable finance 27
2.5 Project Pipeline 28
2.6 Incentives to scale up sustainable investments 30
2.7 The use of sustainable finance tools and frameworks by public authorities 32
2.8 Promoting intra-EU cross-border sustainable investments 33
2.9 EU Investment Protection Framework 34
2.10 Promoting sustainable finance globally 34

3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS 36
3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments 36
3.2 Financial stability risk 37
a. Insurance prudential framework 38
b. Banking prudential framework 38
c. Asset managers 39
d. Pension providers 40
3.3 Credit rating agencies 42
3.4 Natural capital accounting or “environmental footprint” 42
3.5 Improving resilience to adverse climate and environmental impacts 43

SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE

Question 1: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select one of the following):

- Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- X Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- No further policy action is needed for the time being.

PensionsEurope response:

Many initiatives directed at the financial services sector are underway and/or currently being implemented. the proliferation of ESG initiatives (IORP II Directive, Disclosure Regulation, Taxonomy Regulation, Shareholder Rights Directive) may create some overlap of requirements. Authorities should now focus their attention on implementation and carefully assess the cumulative impacts of these initiatives before adopting additional measures. Authorities should now focus their attention on implementation and finetune existing and recently approved regulations to ensure their usability. The cumulative impacts of current measures need to be carefully assessed and monitored before considering any additional initiatives.

Question 2: Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

- Yes/No/Do not know.
- If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets? Please explain and specify whether you searched for the information yourself or whether the information was made available to you [BOX 2000 characters].
- If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?
    - Yes/No/Do not know
    - If necessary, please explain your answer [BOX 2000 characters].

PensionsEurope response:

Question 3: When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

- Yes/No/do not know

PensionsEurope response:

Question 4: Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

- Yes, corporates;
- Yes, financial institutions;
- Yes, both;
- X If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [BOX, 2000 characters]
- Do not know.

PensionsEurope response:

The Paris Agreement defines clear goals in relation to climate change. In many Member States, pension funds and other institutions for occupational retirement provision (IORPs) are trying to integrate these goals into their investment strategies. It would help if corporates disclosed how they are contributing to these goals, as this would provide the information needed to develop adequate investment strategies. Some initiatives are worth being mentioned. In the Netherlands, two pension providers have launched a global platform to help asset owners invest in line with the UN's Sustainable Development Goals, the Social Development Investment (SDI) Asset Owner Platform. Notwithstanding this, we consider it should not be made mandatory for financial institutions and corporates to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement. Indeed, as explained in our answer to question 1, authorities should now focus their attention on implementation and finetune existing and recently approved regulations to ensure their usability before considering any additional initiatives.

As many financial institutions are still developing the means to integrate the Paris Agreement Goals, the process of potentially requiring financial institutions to do so should follow the pace of data and tools becoming available.

Question 5: One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree).
- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree).
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]

PensionsEurope response:

SECTION II: QUESTIONS TARGETED AT EXPERTS

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?

- [BOX, 2000 characters].

PensionsEurope response:

Main challenges:

- The sustainable finance (SF) framework needs to adopt a holistic approach. As many legislative proposals were developed in parallel, some inconsistencies and gaps have emerged. The renewed strategy should be an opportunity to ensure consistency between all the legislative measures already adopted to make the whole framework work in practice.
    - Scarce availability of quality and comparable ESG data on investee companies. It is important to make sure investors have access to adequate ESG data in order to be able to comply with the new requirements. Standardisation of ESG data is a necessary condition for implementing sustainability in large investment portfolios.
    - Need for global coordination: The EU ESG requirements for investors apply to the entire portfolio. Regulation widely differs around the world. We need harmonisation, action of the EU alone is insufficient.
    - Inconsistencies between the Taxonomy, the Disclosure Regulations and NFRD: implementation calendar, definition of the "do not significantly harm" (DNSH) concept, etc.
- The implementation of the disclosure requirements will be costly and burdensome, in particular for small entities. There is a risk only big players will be able to fully comply with the requirements, which will contribute to a more oligopolistic or monopolistic market.
- If certain assets are stigmatised and the investment universe is narrowed, risks and market inefficiencies may increase. If investors are pushed into certain assets, systemic risk may be exacerbated.

Main opportunities:

- The transition in combination with proper pricing will create new investments opportunities.
- The stimuli might help small innovative businesses to come up with new, clean technology.
- The consolidation of ESG data and harmonisation of standards can increase accessibility of sustainable finance which should become more mainstream.

Question 7: Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

- Please provide a maximum of three examples [BOX max. 2000 characters].

PensionsEurope response:

Apart from the issues raised in our answer to Q6 and the identified scarce availability of ESG data, the lack of regulation over the quality of the data provided by ESG data providers may create obstacles that hinder the development of sustainable finance. Regulation should also promote integrated accounting and make sure material ESG information is reported alongside financial information.
The lack of global coordination and international standards may also create important obstacles for investors with significant investments outside the EU and prevent them from appropriately integrating ESG considerations into their investment decisions for their non-EU portfolio. With the most developed framework, the EU should lead the global debate.
Finally, the lack of a proper carbon price could be an obstacle to the movement of capital from brown to green industries. Transparency is a first step, but not a guarantee for moving large scale capital.

It is noteworthy the IORP II Directive specifically allows for the consideration of ESG factors and requires pension funds to take account of the long-term interest of their members and beneficiaries. IORPs are already required to incorporate ESG factors in their governance and risk management systems. Art. 19 states "within the prudent person rule, Member States shall allow IORPs to take into account the potential long-term impact of investment decisions on environmental, social, and governance factors". Moreover, the understanding of the fiduciary duty in Europe has developed over time. Whereas previously fiduciaries had to defend of non-financial considerations, it is currently widely accepted to argue that these considerations can enhance risk-weighted returns. The IORP II Directive itself therefore stimulates rather than obstructs ESG integration.

Question 8: The transition towards a climate neutral economy might have socio- economic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda. How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts?

- [BOX, 2000 characters]

PensionsEurope response:

In order to mitigate the potential side effects of the SF framework, it is important to focus the efforts on fostering a transition rather than drastically restructuring the economy which would force the closure of entire sectors and cause job losses.
Instead of stigmatising unsuitable investments from an ESG perspective through the adoption of a "brown taxonomy", a better approach would consist in providing assistance to investors in assessing the transformation processes (methods, scenario analyses, portfolio evaluations, etc.), which would help improve the high emission sectors.
Investments in high emission sectors are needed to make a transition possible. Making those investments more difficult by labelling those businesses as "brown assets" should be avoided. It is a combination of financing and empowerment that will enable the transition from brown to green.

The EU should also undertake actions to complement and support the actions taken by corporates in managing the just transition.

1. Developing public-private re-training and upskilling pathways
2. Supporting cross-sectoral job-matching schemes (new jobs will emerge in different sectors/specializations)
3. Supporting collaboration between educational institutions and companies
4. Incentivizing companies to keep newly created green jobs close to home

Question 9: As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important).
- For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution? [BOX, 2000 characters]

PensionsEurope response:

#5: Very important

A clear policy framework is a prerequisite to ensure that correct price signalling would lead to adequate decisions in the financial markets and the real economy. A clear EU political framework with clear and adequate timeframe would give investors the appropriate time to develop appropriate methodologies, tools and processes. A clear EU-wide trajectory on greenhouse gas emission reductions would allow companies and investors to adequately evaluate climate-related transition risks and will decrease climate transition risks.

Risks related to the energy transition arise to a large extent from uncertainties around future regulation. Clear pathways and sector specific trajectories that indicate the ways and pace in which certain assets will have to be phased out allow companies to prepare for new circumstances and better asses the risk of new investments. Unexpected policy events have the potential to cause volatility in financial markets, which might deteriorate the financial position of pension funds and other financial intermediaries.

It is also worth mentioning that the SF framework should not target a certain level of CO_2 reduction at portfolio level, but for the real economy as a whole. If the transition to a CO_2-free economy is to succeed, considerable additional investments will be needed, especially in those sectors that are traditionally CO_2-intensive such as the sectors of transport, energy, agriculture, and industry. A categoric exclusion of these sectors from investors’ portfolios is not desired.

Question 10: Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

- Yes, institutional investors
- Yes, credit institutions
- Yes, both

X No

- Do not know

PensionsEurope response:

There is a lack of appropriate data and models to properly estimate and disclose which temperature scenario institutional investors’ portfolios are financing. The number resulting from such an analysis would give an incomplete picture of the impact an institutional investor has on real carbon emissions. Indeed, the results of this analysis would be backward looking. It is also important to note that an investor with significant exposures to non-aligned companies may contribute more to the reduction of real carbon emissions through successful engagement, than another investor with a portfolio that fits with a lower temperature scenario. For that reason, temperature scenarios may be considered in a climate risk stress test exercise, but we should not draw any conclusions about the investors’ impacts on real carbon emissions based on them.

We support the use of reduction targets and forward-looking data, to estimate a (potential) investors’ impact on real carbon emissions. The framework should not target a certain level of CO_2 reduction at portfolio level, but a certain level of CO_2 reduction for the economy as a whole.

If the transition to a CO_2-free economy is to succeed, considerable additional investments will be needed, especially in those sectors that are traditionally CO_2-intensive such as the sectors of transport, energy, agriculture, and industry. A categoric exclusion of these sectors from investors’ portfolios is not desired.

Question 11: Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects,[2] as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

- X Yes
- No
- Do not know
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters]

PensionsEurope response:

The COVID-19 crisis has shown how biodiversity loss can cause human health problems. The topic of biodiversity has until now received little attention from the investment community. Even though biodiversity is important both from a risk and an opportunity perspective.

Even if we agree the framework should foster the transition to a sustainable economy which should also take account of the growing importance of biodiversity loss, the implementation of the taxonomy is already very complex and should at this stage not be complicated further. Authorities should now focus their attention on implementation and carefully assess and monitor the effects of the adopted measures before considering any new initiatives.

Question 12: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

- [BOX, 2000 characters]

PensionsEurope response:

It is important that the Commission makes sure the framework adopts a holistic approach: all current initiatives must be aligned, and the deadlines put forward must take account of the level of implementation of other complementary initiatives. As an example, the disclosure requirements for investors will be implemented in March 2021, much before the information needed on investee companies will be available since the legislative process on the reporting requirements for companies has just started.

The Commission should consider the possibility to set up a Steering Group to govern the EU sustainable finance agenda, in addition to the two groups created according to the Taxonomy Regulation (Platform on Sustainable Finance and Member States Expert Group). The Steering Group should bring together the following stakeholders:

- The Directorate-Generals (DGs) of the Commission that are involved in the development of sustainable finance and related regulations.
- Representatives from Member States.
- Representatives from "real economy" and financial sector (with balanced representation of all stakeholders).

The Sustainable Finance Platform should not only develop the taxonomy, but also monitor the uptake of the other instruments and the capital flows associated with them. It is important that the standards and tools remain science based and not overly influenced by political views.

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Question 13: In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

- [BOX, 2000 characters]

PensionsEurope response:

International efforts are needed to develop an international taxonomy and align international ESG reporting worldwide. The EU could play a leading role in coordinating these efforts since the EU has the most developed framework. A greater alignment in reporting standards should be achieved through a review of accounting standards, NFRD can be an important steppingstone.

A thorough evaluation of the adopted measures is required before considering any additional initiatives. The new measures on sustainable finance will completely reshape the rules of the game in the financial markets. We call on the Commission to focus now on the implementation of the new measures and assess their impacts such as set out in the respective legislative pieces. For example, the Disclosure Regulation states that an evaluation is required by 30 December 2022. Additional actions may be considered based on the results of such evaluation. Such a process would be aligned with the Better regulation agenda and its principles ("Better tools for better policies" and "evaluate first" principles).

As explained in our answers to previous questions, it is important to focus the efforts on fostering a transition rather than drastically restructuring the economy which would force the closure of entire sectors and cause job losses. Investments in high emission sectors are needed to make a transition possible. Making those investments more difficult by labelling those businesses as "brown assets" should be avoided.

The scarce availability of ESG data on investee companies is one of the major challenges faced by pension funds and all investors in complying with the new ESG disclosures requirements. For this reason, we would recommend the Commission to promote the development of an open source EU ESG data register (see our answer to question 14).

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

1.1 Company reporting and transparency

Question 14: In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

X Yes
- No
- Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

PensionsEurope response:

The availability of ESG data is currently rather insufficient to enable investors to comply with the new regulatory requirements due to apply shortly: ESG data is not comparable, reliable and importantly, also quite expensive. Moreover, not all ESG data providers are transparent about the methodologies and raw underlying data used in their analysis. The setting up of an open source EU ESG data register would help fill the gap between companies' current reporting and the information investors need to be able to comply with the new regulations on sustainable finance. It would somehow mitigate some of the data challenges faced by investors, although only partly.

The scope of the register should be broadly extended without overburdening SMEs. The content and the format of companies' public information should be standardised to foster better comparability and usability of data, taking into account sector-specific information. It could be explored whether the data register can accommodate forward-looking indicators.

As a first step, the database should focus on information related to the Taxonomy and Disclosure Regulation. This would include the share of revenue and capex that is Taxonomy-compliant and reporting against any potential mandatory adverse impact indicators. Ideally, it should also include information on how companies have met the DNSH criterion and minimum requirements.

At a later stage, the database could be extended to integrate reporting against the most relevant existing international standards, such as the TCFD. Over time this could be replaced by the single European NFI reporting standard mooted in the context of the NFRD review.

In its response to the European Commission's consultation on the review of the Non-Financial Reporting Directive (NFRD) and in a joint letter addressed to the European Commission, PensionsEurope identifies the data challenges faced by pension funds and the urgent need to set up a EU ESG data register.

Question 15: According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?

- Yes
- No

X Do not know.

- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation), how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify [BOX, 2000 characters].

PensionsEurope response:

1.2 Accounting standards and rules

Question 16: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- Yes

X No

- do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
  - Impairment and depreciation rules. [BOX, 2000 characters]
  - Provision rules. [BOX, 2000 characters]
  - Contingent liabilities. [BOX, 2000 characters]
  - Other, please specify. [BOX, 2000 characters]

PensionsEurope response:

Beyond the elements already mentioned previously, we do not see further areas in existing financial accounting rules which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks. However, it is noteworthy such risks are inherent to the measurement (and the impairment / depreciation) of any asset and asset class. Climate and environmental risks are typically tail risks with low probability but high impact when happening. It is therefore difficult to adequately reflect these risks in any measurement approach. Notwithstanding this, any accounting approach which claims to be more adequate than a market value, also needs to be considered very carefully. Climate and environmental risk need to be monitored with a prudent risk management approach.

1.3 Sustainability research and ratings

Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data?

- Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned).
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

PensionsEurope response:

#5 very concerned

If the importance of ESG assets continues to grow, it is likely that ESG rating agencies will go through a process of market consolidation. This trend would be further fostered by complex regulation which pushes smaller providers towards mergers / buy-outs / out of the market. The remaining major players would have rather different methodologies, leading to different outcomes in terms of rating. Therefore, the lack of consistent ESG standards is a major concern. A situation where one of the large commercial parties will dominate the market and impose its 'standard' would also not be welcomed.

With the growing importance of sustainability, ESG rating agencies will get a new role and should therefore be covered by the Credit Rating Agency Regulation and supervision by ESMA. It is important to strengthen the diversity of the market rather than explicitly or implicitly pushing for market consolidation. In addition, the development of a central ESG data register as proposed in our answer to Q14 could be a way to mitigate the pressures faced by smaller providers.

Question 18: How would you rate the comparability, quality and reliability of ESG **data** from sustainability providers currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good).
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

PensionsEurope response:

#3

Comparability: #2

Quality: #3
Reliability: #3

Comparability of the ESG data is not very good due to different methodological choices made by data providers. The demand for ESG data has increased over the years and companies have improved their disclosures. Large public companies for instance publish considerable amounts of ESG data. While comparability is important, it is not desirable that all ESG data providers offer exactly the same interpretation and analysis. For example, this applies to situations where providers make normative calls (e.g. on what is considered an 'incident' in the supply chain. When choosing a data provider, investors look at their background and approach and choose what fits their strategy, business model or convictions. In addition, it can be beneficial to choose data providers with different approaches in order to get different insights into the same matter. We would welcome more transparency of ESG data providers about their methodology and into the 'raw' underlying data. Some now provide this, others do not.

The improved disclosures have also had a positive impact on the quality and reliability of ESG data supplied by the ESG research/rating providers, but their data quality is at times falling short of expectations. For example, sometimes companies in some of the emerging markets disclose more information in local language or are subject to stringent local regulations, which the data provider might have missed. Also the data from the providers can be outdated and the selected KPIs do not always provide a relevant proxy for the ESG risk. In addition, the methodological choices can also be sometimes questioned.

Question 19: How would you rate the quality and relevance of ESG **research** material currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good).
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

PensionsEurope response:

#3

Research materials typically show higher quality than ESG data. Research materials are frequently provided by professional research brokers. The quality of ESG research materials available in the market can also be negatively impacted by the methodological choices made by data providers. Furthermore, products often consist of several (tens and up to hundred) KPIs which makes it challenging to understand which factors really drive the results. Having said this, we find it very relevant and important to have access to ESG research materials.

Question 20: How would you assess the quality and relevance of ESG **ratings** for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?

- Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).
- Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

PensionsEurope response:

Individual: #2
Aggregated: #2

In general, we note that there is much more data / research available for „E" than for „S" or „G".

Selected individual KPIs are highly relevant for pension funds and other IORPs' investment processes. However, there is room for improvement regarding the providers' selection of KPIs (in particular, more performance based KPIs should be considered).

Aggregated ESG ratings, that integrate "E", "S" and "G" factors , are not very relevant for pension funds and other IORPs' investment processes,. The methodological choices made by providers (including how qualitative information is translated into quantitative measures as well as often the choice of large number of KPIs which are not always the most relevant KPIs) combined with sometimes inadequate transparency over the ratings has made the ratings less useful. Notwithstanding this, the rating results are used as inputs to confront the results.

Question 21: In your opinion, should the EU take action in this area?

X Yes
- No

- Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

PensionsEurope response:

See our answer to Q17: From our perspective, ESG Rating Agencies should be supervised by ESMA (the scope of the Credit Rating Agency Regulation should be extended), but the current diversity of the market should be maintained rather than explicitly or implicitly pushing for market consolidation. In addition, the central ESG data register as proposed in our answer to Q14 could be a way to mitigate the pressures faced by smaller providers. Harmonisation of global standards would also be beneficial.

1.4 Definitions, standards and labels for sustainable financial assets and financial products

a. EU Green Bond Standard

Question 22: The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Do you agree that verifiers of EU Green Bonds should be subject to some form of accreditation or authorisation and supervision ?

X Yes, at European level
- Yes, at a national level
- No
- Do not know
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

PensionsEurope response:

From an investor's perspective, current market practices, without accreditation, works already quite well. These practices are based on the details provided in a verifier's report. However as for financial credit ratings, it is the issuer who pays for an opinion on itself, this would therefore create a classic principle-agent-problem where it would make sense to create formal oversight over the verifiers to boost investors' trust. Since this would be an EU (minimum) standard, it would make more sense to adopt it at the EU level.

Question 23: Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for third-party service providers on sustainability data, ratings and research?

X Yes
- No
- Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

PensionsEurope response:

However, the market is "smart" enough to filter out the best and good practices. Too much rules would disincentivise players and start-ups to dedicate resources in this area.

Question 24: The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for non- European issuers to follow the proposed standard by the TEG?

X Yes
- No
- Do not know

- If necessary, please specify the reasons for your answer [BOX 2000 characters]

PensionsEurope response:

The simple fact that this standard carries the name "EU GBS" will probably make non-EU issuers reluctant to actively use the label (e.g. lack of trust in EU institutions they can hardly influence). However issuers can still refer to the added benefits of the EU GBS, i.e. complying with the Taxonomy while being verified by an accredited verifier.
Besides this, the current narrow nature of the Taxonomy (only a number of sectors can potentially be taxonomy compliant) creates a limitation for the foreseeable future. Issuance might be hampered because the green taxonomy is currently limited to green, and bonds that do not fit the taxonomy (but are very welcomed by the market) would not be issued.

b. Prospectus and green bonds

Question 25: In those cases where a prospectus has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

PensionsEurope response:

Question 26: In those cases where a prospectus has to be published, to what extent do you agree with the following statement:

"Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus"

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)
- If necessary, please specify the reasons for your answer [BOX]

PensionsEurope response:

c. Other standards and labels

Question 27: Do you currently market financial products that promote environmental characteristics or have environmental objectives?

- Yes
- No
- X Do not know.
- If yes, once the EU Taxonomy is established, how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary [box, 2000 characters

PensionsEurope response:

At the moment, supervisors in many countries are still shaping their view as to whether pension funds can be understood to fall within the scope of Article 8 SFDR and under what conditions.

However, we would argue that the application of an investment policy which takes into account ESG elements simply from a governance, a prudential or a risk perspective should not be seen as promoting environmental or social characteristics or having environmental or social objectives and should therefore not lead to excessive disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR).

SFDR promotes greater transparency for end investors. In some situations where investment decisions are taken by the board and not by the members and beneficiaries, the IORP itself is the only end investor. Further disclosures by IORPs should be required only in situations where members and beneficiaries have to take investment decisions or need to make a choice for affiliation or not.

It is also noteworthy IORPs do not offer pure financial products but rather fulfil a social function. The IORP Directive (recital 32) states 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 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 as guiding principles of the IORP Directive. This should be recognised by the sustainable finance framework.

In the near future, it is unlikely that pension funds use the EU Taxonomy to guide their investment decisions. As a precondition for the use of the taxonomy, data needs to mature.

Question 28: In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at <u>retail investors</u>. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- No regulatory intervention is needed.
- X The Commission or the ESAs should issue guidance on minimum standards.
- Regulatory intervention is needed to enshrine minimum standards in law.
- Regulatory intervention is needed to create a label.

<u>PensionsEurope response:</u>

The role of the Commission should be limited to the development of guidance on minimum standards. This is the only manner to take account of the wide range of varying practices (e.g. business specific) in the field of sustainability. The development of a label would not contribute to foster sustainability since there is a risk that in practice, it would be used as a box ticking. In addition, labels tend to be for retail investors, professional investors normally do not rely on this kind of tools.

Question 29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

- Yes
- X No
- Do not know.
    - If necessary, please explain your answer [BOX, 2000 characters]
- If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?
    - Yes/No/Do not know
    - If necessary, please explain your answer [BOX, 2000 characters]

<u>PensionsEurope response:</u>

See answer to Q29.

Question 30: The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach. Should the EU develop standards for these types of sustainability-linked bonds or loans?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- If necessary, please explain. [BOX, 2000 characters]

PensionsEurope response:

strongly disagree

This type of sustainability-linked bonds and loans are at an early stage of development and it is still unsure whether these instruments will develop to their mature stage. Although these instruments are not a "bad" idea, we prefer the use-of-proceeds type of approach for which interest rates or returns are dependent on the impact generated. Under the EU GBS, an issuer has to explain its climate strategy and the role of the green bond in its strategy; sustainability targets are therefore already considered especially when issuers start to communicate on its sustainability ratings.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- If necessary, please explain. [BOX, 2000 characters]

PensionsEurope response:

In its current stage of development, the EU Taxonomy is not yet suited for this purpose. Indeed, sustainability-linked bonds would have a wide range of application and the Taxonomy is currently only focused on environmental objectives and does not cover other sustainability factors (e.g. social factors). For this reason, we believe it would be more appropriate to make use of the SDGs to map this type of bonds.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages[6] and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes
- X No
- Do not know.
- If yes, please select all that apply:
  - a broad standard or label for sustainable mortgages and loans (including social and environmental considerations);
  - a standard or label for green (environmental and climate) mortgages and loans;
  - a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property;
  - other: please specify what type of standard or label on sustainability in the loan market you would like to see [BOX, 2000 characters]

PensionsEurope response:

Question 33: The Climate Benchmarks Regulation creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'. Should the EU take action to create an ESG benchmark?

- X Yes
- No

- Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX, 2000 characters]
- If yes, please explain what the key elements of such a benchmark should be. [BOX max. 2000 characters]

PensionsEurope response:

There is potential for creating labels based on ESG-criteria with existing benchmarks. These labels may build on existing frameworks or guidelines, such as the OECD guidelines on "Do No Significant Harm" (DNSH). Creating an EU ESG label for benchmarks will also promote standardisation and fight greenwashing, while providing investors with the insights to steer their funds and provide better understanding of the indices they use.

Question 34: Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

X Yes
- No
- Do not know.
- If yes, what should they cover thematically and for what types of financial products? [box max. 2000 characters]

PensionsEurope response:

Standards or labels for private equity, real estate or infra funds could be considered.

1.5 Capital markets infrastructure

Question 35: Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

PensionsEurope response:

#1 strongly disagree

We do not think the existing capital markets infrastructure sufficiently supports the issuance and liquidity of sustainable securities. However, no separate capital market infrastructure is needed to support the issuance and liquidity of sustainable securities. This could decrease and/or limit liquidity in such markets. The EU should make progress with its Action Plan on the Capital Markets Union, and all future measures in the context of this Plan should take account of sustainable finance considerations. It is noteworthy that nowadays, capital markets are still too fragmented within the EU due to several reasons (e.g. tax, insolvency framework, etc.).

Question 36: In your opinion, should the EU foster the development of a sustainable finance- oriented exchange or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?

- Yes

- No
- X Do not know.
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]
- PensionsEurope response:

PensionsEurope response:

Question 37: In your opinion, what core features should a sustainable finance–oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?

- [BOX max. 2000 characters]

PensionsEurope response:

PensionsEurope does not deem the setting up of a sustainable finance-oriented exchange necessary (see our answer to Q35). The Commission should aim at creating an entire integrated EU capital market without impediments for cross border income and capital flows. Further fragmentation, both within the EU and compared with the US, should be avoided. If this exchange is nevertheless proposed, the Commissions must also consider which EU body should be in charge of its supervision. ESMA seems to be the adequate candidate.

1.6 Corporate governance, long-termism and investor engagement

Question 38: In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism? Please select among the following options.

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- X Other, please specify. [box max. 2000 characters]

PensionsEurope response:

Defining narrow objectives on portfolio turn-over ratios and holdings periods for institutional investors may contradict appropriate risk management objectives and limit flexibility when needed. Short-term transactions are needed for portfolio management, such as rebalancing. In addition, these objectives on portfolio turn-over ratios and holdings periods would be difficult to be adequately designed. In the case of IORPs, liabilities might indeed be structured in different ways (e.g. depending on the age structure or on the type of benefit provided: life-long pensions, lump sum payments). And amongst different passive investment strategies, following a broad market index such as the MSCI world will result in fewer transactions than a multi-factor strategy which integrates ESG factors. As a result, we do not believe there is a 'right' level of portfolio turn-over for pension funds and would caution against benchmarking on this basis.

We should also avoid imposing solvency requirements that would require to be fully funded at all times and regular stress tests with an undue short-term focus since this would force investors to focus on short term even though their liabilities have a long-term nature.

It is important to note that EIOPA's report did not find any evidence of undue short-termism in the IORP sector.

Question 39: Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

- X Yes
- No
- Do not know.
- If yes, please explain what action(s). [BOX max. 2000 characters]

PensionsEurope response:

Corporates would operate better with a long-term perspective if relevant long-term shareholders can exercise their power to guide them in the LT-direction and shield them from short term distractions.
For that purpose, it would be worthwhile to consider how to support those institutions that would play this role. Due to the nature of their liabilities, pension funds are long-term investors and therefore a natural partner to finance sustainable growth. Pension funds show interest in investing in the real economy (up to 70% of their assets in some Member States) including alternative asset classes such as infrastructures and private equity. However, some EU initiatives make it increasingly difficult for pension funds to fulfil their role as long-term investors.

- As a result of the financial crisis, EIOPA promotes a common framework for risk assessment that will lead to more de-risking either by abolishing pension benefits, shifting the risks towards individuals, or by moving away from investing in the real economy. It is important to keep a right balance between sustainability and pension adequacy to allow pension funds to continue taking risk by investing in sustainable growth and the CMU.
- The EU should support growth in the second pillar pension sector by promoting second pillar savings, making sure individuals start saving early in their career and promoting collective systems that offer adequate investments. This will benefit pension adequacy and increases the capital available to be invested in the real economy and support sustainable growth.
- The EU should also refrain from imposing Mark-to-Market valuation on pension funds. Market valuations at a risk-free spot rate makes financial institutions' balance very sensitive to volatility, which urges them to fixed income investments away from the riskier investments in the real economy. This has a huge impact on the financing of new innovative technologies as well as the real economy in general.

Question 40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

- Yes
- X No
- Do not know.
- If yes, please indicate what share. [box 2000 characters]

PensionsEurope response:

Existing rules seem to be sufficient. ESG objectives should be incorporated in the overall variable remuneration objectives.

Question 41: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

- Yes
- X No
- Do not know.

PensionsEurope response:

The Shareholder Rights Directive II introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

Question 42: Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

X Yes
- No
- Do not know
- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

PensionsEurope response:

Empowerment of long-term shareholding should be further strengthened while safeguarding one of the cornerstones of proper corporate governance: the "one-share-one-vote" principle.

In some countries, the Shareholder Right Directive II has just been transposed into national law. The cumulative impacts of existing measures need to be carefully assessed and monitored before considering additional initiatives.

Question 43: Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

X Yes
- No
- Do not know

PensionsEurope response:

Participants try to act as engaged shareowners but cannot succeed if they are still confronted with various legal and operational barriers in exercising their (cross-border) voting rights. We believe that distributed ledger technology' (also known as blockchain technology) could potentially facilitate the voting process. We agree with the remark in the consultation document that such a tool could reduce the costs and improve the efficiency of voting and the exercise of other shareholder rights, in particular in a cross-border context. This is demonstrated by the IOSCO Research Report on Financial Technologies (Fintech) which elaborates on the use of blockchain technology for corporate actions processes such as proxy voting (p. 53-54). According to ESMA's report 'The Distributed Ledger Technology Applied to Securities Markets´ (p. 16-18) there are several legal issues, such as company law, that may have an impact on the deployment of distributed ledger technology.

Question 44: Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

- Yes

X No
- Do not know.
- If yes, please explain. [BOX max. 2000 characters]

PensionsEurope response:

The ESG strategy should be part of the overall strategy.

Question 45: Do you think that passive index investing, if it does not take into account ESG factors, could have an impact on the interests of long-term shareholders?

- Yes
- X No
- Do not know.
- If no, please explain the reasons for your answer if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

PensionsEurope response:

First of all, passive investment does not preclude engagement. Particularly for smaller pension fund investors, passive investing can be a cost-efficient way to deliver the main objective of a pension fund: good risk-weighted returns, net of costs.

Even if passive investing does not use ESG engagement, the active manager will take account of ESG factors in his investment decisions. Assuming there are enough actively managed mandates, we do not expect that passive investment without ESG considerations would have significant impacts on the interests of long-term shareholders. In case there are too many passive managers, this would create a bigger opportunity for active managers to obtain alpha and this should reverse the current trend towards passive.

Question 46: Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

- Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- X Yes, as these issues are relevant to the financial performance of the company in the long term.
- No, companies and their directors should not take account of these sorts of interests.
- I do not know.

PensionsEurope response:

Companies and their directors should take account of the interests of stakeholders including employees and customers, covering issues such as human rights violations, environmental pollution and climate change in corporate decisions alongside financial interests of shareholders since these issues are relevant to the financial performance of the company in the long-term. However, the cumulative impacts of existing measures need to be carefully assessed and monitored before considering additional initiatives.

Question 47: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

- X Yes
- No
- Do not know.

PensionsEurope response:

Question 48: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- X Yes
- No
- Do not know.
- If yes, please select your preferred option:
    - All companies, including SMEs.
    - X All companies, but with lighter minimum requirements for SMEs.
    - Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.
    - Only large companies.
- If necessary, please explain the reasons for your answer. [box max. 2000 characters]

PensionsEurope response:

We would like to point out there are international guidelines in place for due diligence (e.g. OECD Due Diligence Guidance for Responsible Business Conduct).

Small companies should be subject to non-binding guidelines to avoid onerous administrative burden. Some might opt for strict supply chain due diligence for societal / governance reasons. Others might find it easier to secure capital market funding when following strict supply chain due diligence. A voluntary approach therefore seems adequate for small companies.

2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY

2.1 Mobilising retail investors and citizens

Question 49: In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

- Yes
- No
- X Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]

PensionsEurope response:

Members and beneficiaries of occupational pensions are not retail investors and should not be considered as such. In some countries, occupational pensions - which usually differ from the products offered by private pension providers - are characterised by a system of collective decisions. Committees, usually made up of representatives of sponsoring undertakings and employees, play a decisive role in the decision-making process.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

- Yes/No/Do not know.

PensionsEurope response:

Question 51: Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)

- If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:
  - X Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5] #5
  - Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5]
  - Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions. [1-5]
  - Directly, through targeted campaigns. [1-5]
  - As part of a wider effort to raise the financial literacy of EU citizens. [1-5]
  - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5]
  - X Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5] #5
  - X Other, please explain [box max. 2000 characters]

PensionsEurope response:

Financial institutions need highly educated people who can understand financial and investment activities from a wider social perspective; identify which sustainability issues are important when deciding whether to provide capital to companies; assess how prepared companies are to manage social challenges and who can contribute to the successful transition of businesses to sustainable and lasting business models. There is a need for graduates who have knowledge about the social and environmental impact of finance. In this sense, sustainability should take a more central place in the curricula of financial and economic studies. We encourage universities to carry out more research on ESG integration, impact investing and long-term value creation, and to develop more study materials for these topics.

Sustainability should also be integrated in the life-long learning of financial professionals in order for it to become gradually mainstreamed in financial analysis and portfolio construction.

2.2 Better understanding the impact of sustainable finance on sustainability factors

Question 52: In your view, is it important to better measure the impact of financial products on sustainability factors?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).
- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

PensionsEurope response:

#4

It Is important to better measure the impacts of financial products on sustainability but at the scale of the whole economy and not from a portfolio perspective. This should be recognised when developing impact assessment models. The EU could explore ways to help (i) standardise impact metrics and (ii) develop databases at the output, outcome and impact levels. Beyond impact measurement, the EU could also develop a standard to monetise the impacts of financial products on sustainability which would put societal returns on a level footing with financial returns.

Question 53: Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

- Yes
- X No
- Do not know.
- If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.[box max. 2000 characters]

PensionsEurope response:

The mentioned products do not have the same ability to allocate capital to sustainable projects and activities since they are embedded in different rules and regulations and the investors' role and responsibilities vary considerably from one product to another. Not all forms of investment create ownership for investors and/or endow investors with the corresponding rights.

Some financial instruments are more conducive to allocate capital to sustainable projects and activities. It is important to distinguish a situation where the investor is financing a specific activity/project from a situation where the investor is financing most of the activities of a specific company. When an investor has some is a small shareholder in a larger corporation, it is particularly challenging to have an influence on how to allocate funding in a sustainable matter. A distinction should also be made between primary and secondary financing. Primary financing is likely to entail more influence.

2.3 Green securitisation

Question 54: Do you think that green securitisation has a role to play to increase the capital allocated to sustainable projects and activities?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).
- If necessary, please explain your answer. [box, max. 2000 characters]

PensionsEurope response:

Question 55: Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising 'green assets' and increasing growth in their secondary market?

- X Yes
- No
- Do not know.
- If yes, please list the barriers you see (maximum three). [BOX max. 2000 characters]

PensionsEurope response:

Securitisations provide long-term investors, such as pension funds, with a broad pool of assets that are genuinely low risk from a credit perspective. In order to revive the European securitisation markets and to create an adequate environment for the take-up of green securitisations, it is important to ensure an adequate calibration of the instruments in banks' prudential framework and to fine tune current legislations. PensionsEurope would recommend:

- streamlining the significant risk transfer assessment process.
- recalibrating the capital charges applied to senior tranches to better align them with their risk profile. The high-risk weight of the senior tranche limits the amount of securitisations, as the total capital for all tranches (senior and first loss) increases substantially versus the capital to be allocated to the loans.
- differentiating disclosure and due diligence requirements for public and private securitisations.

- expanding the framework for simple, transparent, and standardised (STS) securitisations to synthetic securitisations. This would enable banks to lend more to the real economy while encouraging a "race to the top" in terms of transaction standards. Green securitisations can benefit from this STS framework and from high transaction standards.

ESMA has drafted reporting templates for securitisations that do not fit well with the data requirements for synthetic securitisation and can have unintended consequences, which is likely to impede green synthetic securitisations.
We do not support 'subsidising' green assets through an artificially lower risk weight that does not reflect the inherent risk. This could lead to reduced lending scrutiny and disproportionate risk taking, which could stigmatise the sector if it leads to a large amount of non-performing 'green' loans. It is better to stimulate green lending through enabling securitisation, which would lead to additional scrutiny on the lending processes.

Question 56: Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?

- Yes
- X No
- Do not know.
- If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [box max. 2000 characters]

PensionsEurope response:

As mentioned in our answer to Q55, it is important to ensure an adequate calibration of the instruments in banks' prudential framework and to fine tune current legislations in order to revive the European securitisation markets and to create an adequate environment for the take-up of green securitisations, rather than creating a new dedicated regulatory and prudential framework for green securitisations. Stimulation and standardisation of data for green securitisations can be aligned with existing data initiatives for sustainable finance.

2.4 Digital sustainable finance

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

- X Yes
- No
- Do not know
- If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

PensionsEurope response:

As mentioned in our response to Q14, the Commission should promote the setting up of an open source EU ESG data register which would help fill the gap between companies' current reporting and the information financial institutions need to be able to comply with the new regulations on sustainable finance. The scope of the register should be broadly extended without overburdening SMEs. the content and the format of companies' public information should be standardised to foster better comparability and usability of data, taking into account sector-specific information. The data register must ensure availability of forward-looking indicators.

In its response to the European Commission's consultation on the review of the Non-Financial Reporting Directive (NFRD), PensionsEurope identifies the challenges faced by pension funds in complying with the new ESG disclosure requirements in terms of data availability and recommends the establishment of a European database. Together with 5 other EU trade associations, PensionsEurope also addressed a letter to the European Commission to highlight the urgent need for publicly available ESG data on companies as well as how to enhance their sourcing.

It is also worth mentioning market forces are also effective in supporting the development of digital solutions. The Commission should consider how to harness these forces before considering additional initiatives.

Question 58: Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?

- Yes
- X No
- Do not know.
- If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions [BOX max. 2000 characters]

PensionsEurope response:

Question 59: In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

- Yes
- No
- X Do not know.
- If yes, please detail, in particular if you see a role for EU intervention, including financial support. [BOX max. 2000 characters]

PensionsEurope response:

2.5 Project Pipeline

Question 60: What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

- BOX max. 2000 characters

PensionsEurope response:

Regulatory obstacles:

- Lack of regulatory certainty: lack of clear and shared framework on data collection and risk pricing.
- Inconsistencies related loan securitisations which hinder sustainable investments.

One of the key market obstacles that prevent an increase in the pipeline of sustainable projects arises from the high volatility of revenue, and in the case of renewables specifically, a certain exposure to merchant power prices. Subsidy regimes have partially mitigated this and provided a strong incentive for investment in the sector. However, the phase-out from these mechanisms are significantly impacting institutional investors' ability to deploy additional capital into the sector.

Institutional investors are in general not comfortable with stepping in offshore wind projects that require substantial further development activity unless an appropriate risk-adjusted return can be achieved.

Increasing the availability of new offshore sites for auction would be beneficial as it would preserve the EU supply chain for offshore projects, and lead to more rationale bidding in site auctions.

Another market obstacle to allow an increase in the pipeline of sustainable projects is the scarce availability of advanced projects that are being offered for sale. There are only a few key markets in Europe with significant number of operational or construction projects (Germany, Denmark and, to a lesser extent, the Netherlands and Belgium). Further supporting and developing the sector in other large markets (e.g. France, Poland) would add to the supply of projects and support ongoing investments.

Referring to onshore wind, the growth of pipeline development is slowing down in many European countries, except for Nordic countries. In some countries, more stringent regulatory requirements (such as distance requirements in Germany) appear to be a key factor that explains this slowdown. Further, depressed long-term electricity price forecasts are reducing the incentives for investment.

Question 61: Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

X Yes
- No
- Do not know
- If necessary, please provide details. [box. Max. 2000 characters]

PensionsEurope response:

Greater harmonisation of renewable energy subsidy regimes across the EU would significantly improve the scope for renewable development and support a strong EU-wide industry. Further, extending the subsidy period and providing a clear and unified timetable for the removal of subsidies over time would support ongoing investments in development functions and support smaller independent developers. Sensible amendments to planning laws for renewable projects would also be welcomed, and to the extent possible, the creation of an EU-wide framework for such approvals. EU proposal for more rigorous enforcement of environmental standards of trading partners, as part of FTAs, would also be greatly welcomed.

Question 62: In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level

- [BOX max. 2000 characters]

PensionsEurope response:

Question 63: The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

- [Box max. 2000 characters]

PensionsEurope response:

Question 64: In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

- Yes/No/Do not know

PensionsEurope response:

Question 65: In your view, do you consider that the EU should take further action in:

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- X Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- X Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- X Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No
- If necessary, please explain your answer. [Box max. 2000 characters]

PensionsEurope response:

2.6 Incentives to scale up sustainable investments

Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

- Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well).
- Please specify your answer. [BOX max. 2000 characters]

PensionsEurope response:

Some of the obstacles to the uptake of sustainable investments are:

- Fragmentation of national markets in the EU.
- Impediments to cross border investments (e.g. tax, insolvency frameworks, etc.).
- Lack of sustainable projects.

National and EU governments could provide for more financial instruments themselves.

If the returns are sufficiently attractive to investors, however, there should be few or no legal barriers to the uptake of sustainable investments. Nevertheless, the overlapping between the requirements set up by different regulations might increase the related costs.

Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?

- Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).
- In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).

Types of incentives	Bonds	Loans	Equity	Other
Revenue-neutral subsidies for issuers				
De-risking mechanisms such as guarantees and blended financing instruments at EU-level				
Technical Assistance				
Any other public sector incentives - Please specify in the box below.				

- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [BOX max. 2000 characters]

PensionsEurope response:

Question 68: In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?

- Please express your view by using a scale of 1 (not effective at all) to 5 (very effective).
- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
- Revenue-neutral public sector incentives
- Adjusted prudential treatment
- Public guarantee or co-financing
- Other
- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other). [BOX max. 2000 characters]

PensionsEurope response:

#2 not effective

- Revenue-neutral public sector incentives: it is not clear what this exactly means.
- Adjusted prudential treatment: This would help create an attractive market for sustainable investments only when sustainable investments might lead to material prudential risks. In principle, prudential regulations should only be based on prudential aspects.
- Public guarantee or co-financing: a real incentive would be that a government takes an equity stake in sustainable project. A first-loss position or parallel ranking with non-government investors could also be an alternative in order to transform green field projects into investments which can be attractive for financial market participants.
- Other: tax incentives (primarily for retail investors). The emission of green and social bonds by the EU and national governments would both contribute to volume and liquidity in the markets and could be considered as a good example for companies to also issue such instruments.
- In addition, the provision of clarity beforehand about the qualification of investments as green (for example compliance with the indicators of the Taxonomy), social, etc. This will facilitate financial market participants invest in these activities.

Question 69: In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

- Yes/No/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

PensionsEurope response:

Providing subsidies / financial support with the purpose to increase short-term profitability of sustainable projects would benefit SMEs and smaller professional investors.

2.7 The use of sustainable finance tools and frameworks by public authorities

Question 70: In your view, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

- Yes - please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]
- Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose. [Box max. 2000 characters]
- No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view. [Box max. 2000 characters]
- Do not know.

PensionsEurope response:

Question 71: In particular, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

- Yes
- X Yes, but only partially
- No
- Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed. [BOX max. 2000 characters]

PensionsEurope response:

The EU taxonomy may be a helpful instrument for this purpose since it sets up very precise guidelines for use by the public sector in the area of green public procurement. However, the usability of the taxonomy depends on whether companies disclose the information needed to verify whether their activities are taxonomy-aligned. Moreover, not all the materials are covered by the Taxonomy. For example, textiles are not covered by the Taxonomy while there is an EU guidance on procurement for textiles.

Question 72: In particular, should the EU Taxonomy[8] play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- X Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
- Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.

- No;
- Do not know

PensionsEurope response:

Follow-up questions:

- If yes, what role should it play and is the taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for the following purposes? Select all that apply:
    - In the context of some EU spending programmes: BOX [max 2000 characters]
    - In the context of EU state aid rules: BOX [max 2000 characters]
    - Other, please specify. BOX [max. 2000 characters]

PensionsEurope response:

- If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.
    - In the context of some EU spending programmes: BOX [max 2000 characters]
    - In the context of EU state aid rules: BOX [max 2000 characters]
    - Other, please specify. BOX [max. 2000 characters]

PensionsEurope response:

Question 73: Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt?

X Yes
- No
- Do not know.
- If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for? [BOX max. 2000 characters]
- [BOX max. 2000 characters]

PensionsEurope response:

2.8 Promoting intra-EU cross-border sustainable investments

Question 74: Do you consider that targeted investment promotion services could support the scaling up of cross-border sustainable investments?

- Yes
- No

X Do not know.
- If yes, please specify what type of services would be useful for this purpose:
    - Information on legal frameworks
    - Individualised advice (e.g. on financing)
    - Partner and location search
    - Support in completing authorisations
    - Problem-solving mechanisms
    - Other, please specify [box max. 2000 characters]

PensionsEurope response:

2.9 EU Investment Protection Framework

Question 75: Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment? Please choose one of the following:

- Investment protection has **no impact.**
- Investment protection has **a small impact** (one of many factors to consider).
- Investment protection has **medium impact** (e.g. it can lead to an increase in costs).
- Investment protection has a **significant impact** (e.g. influence on scale or type of investment).
- Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.

X Do not know.

PensionsEurope response:

2.10 Promoting sustainable finance globally

Question 76: Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient).
- For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [BOX max. 2000 characters]

PensionsEurope response:

#2 insufficient

Global harmonisation is still missing and should improve. A strong link between the pathway towards a coherent global framework and the SDGs should be explicit. Referring to disclosure, international coordination is important since large listed companies are internationally active and already use internationally recognised ESG reporting standards such as the standards of the Global Reporting Initiative (GRI), the requirements of the Task Force on Climate-related Financial Disclosure (TCFD) or specific disclosure standards (e.g. CDP, CDP Water). We would recommend aligning any new disclosure initiatives and/or standards with these existing and widely used standards.

It is important to note that the US do not participate in the International Platform on Sustainable Finance which is an important impediment to global coordination.

Question 77: What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.

- [BOX max. 2000 characters]

PensionsEurope response:

Ensuring global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs should be the responsibility of international organisations, such as the United Nations. The powers and competencies of already existing international organisations should therefore be strengthened to facilitate global coordination.

Question 78: In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies? Please select all that apply.

X Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);

X Lack of clearly identifiable sustainable projects on the ground;

X Excessive (perceived or real) investment risk;

X Difficulties to measure sustainable project achievements over time;

- Other, please specify [BOX max. 2000 characters].

PensionsEurope response:

Private investors face excessive investment risk when financing sustainable projects and activities in emerging markets (EMs) and/or developing economies due to:

- A lack of good governance practices (country governance)
- A certain risk of being exposed to partially state-owned enterprises or companies under partial government influence.

Other barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies:

- Lack of supply of sovereign green bonds in local currency (and hard currency) with clear use of proceeds and second party opinion.
- Lack of market infrastructures for foreign investors to buy and settle bonds in certain EMs' countries.
- Shortfall in technical knowledge and assistance on how to issue a green bond.
- Foreign governments / corporates are largely unaware of the demand to finance sustainable projects by large asset owners.
- Lack of communication and interaction between issuers and investors.
- Small supply of supranational/DFI green bonds in EMs' local currencies, breath of currencies limited and size of bonds.
- Nascent supply of USD and EUR denominated corporate green bonds in EMs.

Question 79: In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions?

- Please provide a maximum of three proposals. [BOX max. 2000 characters]

PensionsEurope response:

We believe the mobilisation of investors to finance sustainable projects should grow in an organic way, making use of positive stimuli. Such a change needs time.

Ultimately it is up to asset owners and asset managers to decide whether to allocate to finance sustainable projects and activities in emerging markets (EM) and developing countries. The ability to allocate is driven by a large range of factors, including the risk appetite, the investment outlook, regulation etc. Support by the EU could be provided in the following ways:

- Integration of targeted sustainability clauses in FTAs in relation to foreign direct and capital investment.
- The EU could encourage unilateral/domestic development banks of EU-members, like the FMO, KFW, AFD etc. to finance more projects in EMs' countries in the recipient's domestic currency and issue local currency bonds on the back of it. The same applies to EBRD for private sector projects of which some are in EM (North Africa, Middle East and Central Asia).
- Educate and increase awareness. Put more weight behind initiatives such as the Making Finance Work for Africa, already supported by the French, German and Dutch ministries of foreign affairs

- Provide technical assistance to EMs' countries on how to build a well-functioning capital market, e.g. pricing, dealing, settlement, benchmark inclusion, FX markets, green bond issuances etc. Various DFI's (World Bank, ADB etc.), semi-public entities (International Growth Centre, funded by UK DFID) and private sector institutes are active (Climate Bond Initiative, Milken Institute).

Question 80: How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best- suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.
- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].
- X These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted [box max. 2000 characters].
- Do not know.

PensionsEurope response:

EU initiatives are very valuable but need to be adopted by a global organisation e.g. UN to become applicable in other countries and to take into account local characteristics.

Question 81: In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?

- Yes / Yes, but only partially / no / do not know.
- If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed [box max. 2000 characters].

PensionsEurope response:

3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

- Yes
- X No
- Do not know.
- If no, please explain why you disagree [BOX max. 2000 characters]
- If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
    - Help supervisors to identify and manage climate and environmental risks.
    - Create new prudential tools, such as for exposures to carbon-intensive industries.
    - Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.

- Identify and stop environmentally harmful subsidies.
- Other, please specify. [box max. 2000 characters]

PensionsEurope response:

We are convinced the framework should adopt a positive approach and set the right incentives towards sustainable investments since this would create much more empowerment to reach the sustainability objectives. If European Authorities are convinced an activity should no longer be allowed, this should be reflected in EU legislation as such. As long as an activity is allowed, all market participants should be allowed to invest in this activity. The introduction of a "brown taxonomy" would imply the exclusion of certain investments or even the exclusion of entire sectors, which is counterproductive with the objective of financing the transition towards a more carbon-neutral and more resource efficient economy. Indeed, investors can make a difference and promote the transition of the "worst" sectors by exercising shareholder engagement. If the financial markets work well, in the long end the brown character of a companies' activity will be anyway reflected in its market value.
A "brown taxonomy" might exacerbate systemic risk. Penalising certain investments in the prudential framework may make these investments too costly and force investors to divest.

Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

- Yes
- X No
- Do not know.
- If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

PensionsEurope response:

3.2 Financial stability risk

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

- X Physical risks, please specify if necessary [BOX max. 2000 characters]
- X Transition risks, please specify if necessary [BOX max. 2000 characters]
- X Second-order effects, please specify if necessary [BOX max. 2000 characters]
- Other, please specify [BOX max. 2000 characters]

PensionsEurope response:

All three channels will be extremely important in the long run. However, the possibilities to estimate and hedge these risks are currently limited. At the moment, transition risk seems most urgent, having the most impact in the short run. Physical risks and second-order effects are more long-term risks and harder to quantify. Especially as they are dependent on the eventual climate change scenario.

Question 85: What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

- Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

PensionsEurope response:

Under the prudent person rule (article 19), the IORPII Directive specifically allows for the consideration of ESG factors and requires pension funds to take into account the long-term interest of their members and beneficiaries. IORPs are already required to incorporate ESG factors in their governance and risk management systems. Over the last years, there has been a clear trend in the pensions sector towards sustainable investment, and there is an increasing awareness and interest in ESG consideration.

EIOPA and national supervisors in several Member States have already undertaken a stress test exercise on ESG and climate change, with specific focus on financial stability. The financial industry is considering climate change more as a financial risk than a sustainability issue. As a result, climate change is discussed not only within responsible investment departments, but also with investment managers and risk managers. The inclusion of climate change in supervisors' models (stress testing, etc.) demonstrated this risk must be taken seriously. However, the industry still faces some challenges (especially with data) but recognising the existence of the financial side of the problem is the first necessary step.

There is increasing pressure on companies to report their financial climate risks, and how these are managed. The wide adoption of the TCFD framework is important as it provides standardisation which helps investors to compare companies within sectors. Additionally, there are now many parties that combine all the different risks of climate change and come up with a 'climate risk score' per company. For smaller investors this offers a solution, as they usually cannot do the research themselves. However, it remains unclear how these scores are constructed. Transparency on methodology and parameter choices is insufficient. This needs to improve and we should aim for a standard that can be compared to credit risk ratings.

Question 86: Following the financial crisis, the EU has developed several macro- prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro- prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

- Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient).
- For scores of 1-2, what solution would you propose? Please list a maximum of three. [BOX max 2000 characters]

PensionsEurope response:

a. Insurance prudential framework

Question 87: Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

- Yes
- No
- Do not know.
- If yes, please specify which actions would be relevant. [BOX max. 2000 characters]

PensionsEurope response:

b. Banking prudential framework

Question 88: Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level- playing field?

- Yes/No/Do not know.

- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

PensionsEurope response:

Question 89: Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

- Yes one or both, please specify which action would be relevant [BOX max. 2000 characters]
- No.
- Do not know.

PensionsEurope response:

Question 90: Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?

- Yes/No/Do not know.
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

PensionsEurope response:

c. Asset managers

Question 91: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

- Yes
- X No
- Do not know.
- If yes, what solution would you propose? [BOX max. 2000 characters]

PensionsEurope response:

We believe it is part of the fiduciary duty of an asset owner to consider long-term sustainable investment value drivers, which include environmental, social and governance issues, and to avoid or minimise the adverse impacts of investment decisions as long as this does not hurt returns.

Pension funds that do have adverse impact policies, sometime struggle to convince their external (commercial) asset managers to incorporate these into the investment strategies, particularly if they are smaller pension funds, in case of investment in open-ended funds. This problem is less pronounced when assets are managed by pension service providers that are part of the pension fund or managed by the same social partners. Having a high-level principle-based requirement to consider adverse impacts can help pension funds in implementing their own adverse impact policies.

At the same time, asset managers play an important role in the investment process, but ultimately, they must implement the investment mandate defined by asset owners. The investment beliefs of the asset owner are integrated in the mandate. The rules on fiduciary duty should not inhibit the full implementation of the desired investment strategy. There is still a lively debate about the financial materiality of different ESG factors. How would stricter rules on fiduciary duty of asset managers deal with a disagreement on e.g. the financial materiality of biodiversity between a pension fund and asset managers? The fiduciary duty implies asset managers will act for the best interest of their clients but does not mean clients define what is best for them. Therefore, given the risk that the proposed requirement would actually inhibit the design of the mandate, we opt for 'no'.

d. Pension providers

Question 92: Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?

- Yes
- X No
- Do not know.
- If yes, please specify what actions would be relevant in your view. [BOX max. 2000 characters]

PensionsEurope response:

PensionsEurope recommends the Commission to first await the implementation of new legislation to assess whether it is comprehensive enough, before considering new reporting requirements.

The Taxonomy and Disclosure Regulations will impose new ESG reporting requirements. Given the underlying data is still missing, it will take time until this implementation has fully settled. In many MSs, NCAs already request IORPs to report on ESG issues in pre-contractual documents, during the accumulation and pay out phases. We are concerned an increase in reporting would add costs without improving members and beneficiaries' ESG awareness.

If the EU explores options to improve ESG integration and reporting, the following points should be considered:

- IORPs act in the long-term interest of their members and beneficiaries, sponsors are important stakeholders. IORPs need to be able to implement ESG regulation with that in mind, at a reasonable cost.
- The decision-making freedom of IORPs should be preserved: Methodological freedom regarding the inclusion of ESG risks should be maintained on a permanent basis.
- A cross-sectoral approach for all market participants is feasible, but a distinction should be made according to the characteristics of each segment of the financial markets.

The description of the results of the EIOPA stress test for IORPs needs to be nuanced:

- The percentages describing IORPs' situation are unweighted. Looking at AUM, the vast majority of IORP assets in the sample is invested with ESG risk integration.
- It is difficult to draw any conclusion from the analysis on greenhouse gas emissions as it used the average of emissions by sector without granularity on the underlying economic activities, so investments in wind and coal energy would give the same kind of exposure, as they both refer to energy production. The exercise benchmarked IORPs' investments against the average CO_2 exposure of the whole economy, whereas they invest primarily in listed companies.

Question 93: More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?

- [BOX max. 2000 characters]

PensionsEurope response:

As long-term investors, IORPs can play an important role in enabling the transition towards a more sustainable environment. Responsible investing is becoming more mainstream in the sector.

The EU can help IORPs to contribute to the transition by ensuring that prudential legislation does not dampen their capacities to invest in the real economy. It is essential to recognise IORPs' diversity and maintain the minimum harmonisation approach at EU level. Occupational pension systems – which highly depend on national social and labour law - are very diverse across Europe and prudential regulation varies among MSs. The main objective of IORPs will remain to achieve good pensions for members and beneficiaries, while increasingly looking to do so through responsible investments. For the Renewed Strategy to be successful, the objective of financing the transition has to be aligned with the objective of paying out pensions.
Regulation must recognise the specificities of IORPs and avoid stifling them with inappropriate and burdensome rules. According to the IORP II Directive, IORPs are financial institutions with a social purpose which are often managed by social partners. They are not considered as providers of financial products as such but more as executors of a pension promise by the sponsoring undertaking to its employees. These IORPs have no commercial character and there is no competition between them due to the mandatory nature of the affiliation of members and affiliates. It would be inappropriate to impose to these IORPs the same transparency requirements than those applying to big commercial financial entities. In most MSs, IORPs are very small entities, which makes them very sensitive to any additional administrative burden.
The EU should make sure policy and laws are firmly in place to ensure that the path to carbon neutral is firmly held by policymakers.

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

- Yes
- X No
- Do not know.
- If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [BOX max. 2000 characters]

PensionsEurope response:

Under the prudent person rule (article 19), the IORPII Directive specifically allows for the consideration of ESG factors and requires pension funds to take into account the long-term interest of their members and beneficiaries. IORPs are also already required to incorporate ESG factors in their governance and risk management systems.

In many countries, members and beneficiaries are represented in Committees, made up of representatives of sponsoring undertakings and employees and which play a decisive role in the decision-making process. This implies that their preferences are already fully taken into account by their representatives when defining the investment policy and risk management framework.

We are strongly against mandatory consultation, particularly through surveying, on ESG issues. First, the IORP landscape in Europe is very diverse. The majority of assets are still in DB plans, which have traditionally place greater emphasis on the role of the employer, which can still be required to make up shortfalls, and less on individual decision-making. On the other side of the spectrum, some DC plans already provide specific ESG investment options. Second, the costs per member could be significant for very small IORPs that do not have internal capacity to organize such a survey. Third, boards need flexibility in interpreting and incorporating ESG preferences while a legal survey requirement could lead boards to focus on compliance, rather than outcomes. As mentioned by the High-Level Group on Pensions, it can be challenging to bring together diverging views in a single collective investment policy. Simultaneously integrating ESG issues identified through risk-management and non-financially material issues may expose members to financial risk through lack of diversification.

3.3 Credit rating agencies

Question 95: How would you assess the transparency of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

PensionsEurope response:

#2 not very transparent

Pension funds do not make much use of credit ratings built by CRAs for ESG purposes. It is noteworthy that the ESG spectrum is much broader much broader than the financial aspects that may impact the creditworthiness of companies as moral and principal aspects also play an important role, but we consider these factors should not be integrated as part of a credit rating.
CRAs could include ESG-aspects in their processes/ratings when these factors have a direct impact on the creditworthiness of the company. This should then be made explicit and transparent.
Moreover, at this stage of development of ESG reporting, the integration of ESG in credit ratings would make it harder to isolate and analyse the information.

Question 96: How would you assess the effectiveness of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

PensionsEurope response:

See our answer to Q95.

Question 97: Beyond the guidelines, in your opinion, should the EU take further actions in this area?

- Yes
- X No
- Do not know.
- If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [BOX max. 2000 characters]

PensionsEurope response:

This is primarily a matter between the CRAs and issuing companies.

3.4 Natural capital accounting or "environmental footprint"

Question 98: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

- Yes/No/Do not know.
- If yes, please list a maximum of three relevant initiatives. [BOX max. 2000 characters].

PensionsEurope response:

3.5 Improving resilience to adverse climate and environmental impacts

Question 99: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

X Yes
- No
- Do not know.
- If yes, please select all that apply:
- Loss data, please explain why [BOX max. 2000 characters]
- Physical risk data, please explain why [BOX max. 2000 characters]

PensionsEurope response:

Pension funds encourage companies they invest in to assess the potential climate-related loss and physical risk and publish (parts) of the results. We would support the European Commission takes action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU. Setting up a certain degree of standards helps investors compare and evaluate these assessments.

The concept of "climate related losses" is broad. Pension funds are interested in measuring to what extent they contribute to the goals of the Paris Agreement by investing in portfolio's companies. Companies that positively contribute to solutions or do not have any environmental losses can be considered Paris Aligned in this context.

In order to calculate the potential loss of climate risks, information on the carbon footprint of a company is necessary. Difficulties are sector based; therefore, indicators can be best formulated at the level of a sector. For every sector most material environmental losses can be identified and tracked. Public disclosure of the data can be used in determining the alignment of a company.

Currently most of the physical risk data is offered by commercial data providers that use data for the development of a product, e.g. a risk measurement methodology. Large differences exist between the methodologies used and further standardisation is needed. Public data disclosure by the EU will foster standardisation.

In order to estimate physical risk, information is needed on the location of facilities and the characteristics of the facilities. Some data providers are building these databases, but they are still very incomplete. Physical risk data are currently somewhat underdeveloped as most disclosures seem to be biased towards transition risk. For investors, physical risks are equally important, even in a 2-degree scenario.

Question 100: Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

- Yes/No/Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
  - Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters]
  - Raise awareness about climate physical risk. [BOX max. 2000 characters].
  - Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters].
  - Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters].
  - Reform EU post-disaster financial support. [BOX max. 2000 characters].
  - Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or

environment-related events. [BOX max. 2000 characters]
- Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].
- Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].
- Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters].
- Other, please specify. [BOX max. 2000 characters].

PensionsEurope response:

Question 101: Specifically with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

- Yes
- No
- Do not know.
- If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role? [15]
    - Yes/No/Do not know.
    - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters]
    - If no, please explain. [BOX max. 2000 characters]

PensionsEurope response:

Question 102: In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

- Yes
- X No
- Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters]

PensionsEurope response:

Assessing the potential long-term climate risks is part of good asset management practices. Financial institutions should have the freedom to choose to make this assessment as long as this is clearly communicated to clients and beneficiaries.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **23 member associations** in 18 EU Member States and 3 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **30 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns;

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

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[1] EU Member States: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK. Non-EU Member States: Iceland, Norway, Switzerland.