PENSIONS EUROPE

PensionsEurope comments on the EFRAG's Draft European Sustainability Reporting Standards EDs

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General remarks

PensionsEurope welcomes the opportunity to comment on the EFRAG's exposure draft on the **Draft European Sustainability Reporting Standards**. PensionsEurope supports the introduction of an EU-level sustainability reporting framework. There is an increasing demand from pension funds for ESG data due to the growing sustainable investments of pension funds and the requirements for complying with European regulatory frameworks on sustainable finance. Therefore, PensionsEurope welcomes the proposal for a Corporate Sustainability Reporting Directive (CSRD) published by the European Commission which will expand the availability of ESG data from European companies.

Additional disclosure requirement on "workplace employee benefits"

In the Draft European Sustainability Reporting Standards (ESRS), private pensions are not directly considered a benefit for employees. PensionsEurope emphasizes the need to better recognize private pensions, which will be open to all company's workforce, as an indicator of a good remuneration policy. Employees benefits should be part of non-financial reporting to value companies who provide them.

Our proposal is to add indicators on employees' benefits. You can find our proposals below:

"S1-S27: Employee Share Ownership

119. The undertaking shall disclose:

(a) The percentage of the share capital held by employees and former employees of the undertaking

(b) The percentage of employee shareholders amongst all employees of the undertaking

(c) The number of employee shareholders representatives in the board of the undertaking

(d) A description of the schemes encouraging Share Ownership Plans opened to all employees

S1-S28: Profit Sharing Schemes

120. The undertaking shall state:

(a) The existence of profit-sharing schemes opened to all employees (yes/no)

(b) The existence of matching contributions in employee savings schemes (yes/no)

(c) If applicable, describe the existing schemes

S1-S29: Occupational Pension Schemes

121. The undertaking shall state:

(a) The existence of a pension scheme opened to all employees and sponsored by the undertaking (yes/no)

(b) Employer contribution (yes/no)

(c) Employee contribution (yes/no)

(d) If applicable, describe the existing schemes

Align with requirements of other Sustainable Finance regulations and global frameworks

PensionsEurope supports and encourages the explicit requirement in the CSRD that the European sustainability reporting standards (ESRS) should be coherent with other legislation, in particular the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy. We are also pleased that the ESRS Exposure Drafts (i) account for and specifically flag disclosures related to the SFDR principal adverse impact (PAI) indicators and (ii) explicitly refer to the Taxonomy disclosure requirements and address the needs set out by the minimum safeguards. We do emphasize that pension funds hold significant assets outside the EU, so the CSRD and ESRS are only part of the solution to supply the data required to comply with SFDR and the EU Taxonomy.

Facilitate difference between portfolio and company materiality

We believe that PAI indicators (mandatory and additional) should be the priority indicators to disclose under the CSRD. For financial institutions, CSRD data is useful for SFDR PAI (mandatory and voluntary) reporting. To comply with their obligations under the SFDR, broad CSRD reporting would be ideal.

We understand that all ESRS are mandatory and can use the 'rebuttable presumption' except for the Disclosure Requirements related to ESRS 2 Disclosure Requirements SBM, GOV and IRO. For pension funds, it would be ideal if PAI disclosure were mandatory for all companies without the possibility to use the 'rebuttable presumption' to opt out of disclosing such information.

We do however understand that materiality is important under CSRD level 1 reporting. Disclosures should be based on material topics for the information to be relevant. The principle that mandatory ESRS disclosures are presumed material unless rebutted through a materiality assessment is well suited to the ESG data needs of pension funds. PensionsEurope would like to point out that material topics can differ between portfolios and individual investee companies. For example, the SFDR PAI indicators cover a wide range of sustainability matters, whereas for a company only a subset may be considered material.

To avoid discrepancies between the CSRD and SFDR frameworks as much as possible, PensionsEurope believes immateriality should at least be made explicit. In the current ESRS exposure drafts, individual indicators under a materiality threshold may be omitted without an explicit explanation or statement. As pension funds must explain data gaps for entity-level PAI indicators, PensionsEurope suggests that companies that consider a PAI indicator immaterial should always explicitly report that this is the case.

If discrepancies between CSRD and SFDR frameworks continue to exist, policy makers should consider clarifying that under the SFDR, a financial institution may disclose a PAI equal to '0' when the company does not report on such PAI. For some PAIs, for example number 12 and 13 on the gender pay gap and board gender diversity, it is not possible to report '0'. In these cases, the company should be excluding from reporting. However, it could be considered that PAI 12 and 13 are material for every company.

Ensure subjectivity of materiality rebuttals is minimized

We support the role of a materiality assessment and the requirement to establish explicit thresholds and/or criteria to determine whether a topic is not material. However, we do have concerns about the potential subjectivity in the materiality assessment. PensionsEurope suggests that the materiality assessment should be reviewed or audited which would ensure a more robust process and minimize subjectivity.

Avoid duplication of reporting requirements

Pension funds typically outsource asset management to external asset managers, but in some cases, it is conducted by their internal or wholly owned asset manager. These asset managers only provide services to these specific pension funds or a restricted group of pension funds, but may take the legal personality of an undertaking and as such be in the scope of the CSRD. We, therefore, urge aligning the reporting requirements for entities under SFDR and CSRD to avoid duplication.

In addition to financial product disclosures, pension funds, asset managers and other financial market participants disclose sustainability matters at the entity level under SFDR. Most relevant are the disclosures on (i) policies on the integration of sustainability risks in the investment decision-making process and (ii) the SFDR PAI statement covering impacts of investee companies. PensionsEurope believes that the SFDR reporting requirements provide sufficient information to affected stakeholders and users of sustainability reporting to warrant an exception for reporting under CSRD. Hence, the CSRD should include an explicit provision which exempts financial market parties from the obligation to disclose topics so far that have already been disclosed under the SFDR. To preserve comparability, the financial institution may use a cross-reference as a solution to report on the matter.

Recommendations

In conclusion, PensionsEurope supports the introduction of an EU-level sustainability reporting framework and further global harmonization. The ESRS should be improved by including a review or auditing requirement for the materiality assessment to avoid subjectivity and by adding further transparency when PAI indicators are not considered material by a company. Finally, reporting requirements under CSRD and SFDR must be harmonized. Exempting pension funds, asset managers and other financial market participants from reporting under CSRD should be considered as the SFDR reporting requirements already provide stakeholders with sufficient information.

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 **25 member associations** in 18 EU Member States and 4 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents **€ 7 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 **19 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, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland, UK.