Press Release

PensionsEurope comments on European Commission's Communication: Strategy for Financing the Transition to a Sustainable Economy

PensionsEurope welcomes the EC Communication which aims to take next steps in the **EU Sustainable Finance Strategy.** Private finance has an important role to play in the recovery from the COVID pandemic and in the transition to a sustainable economy. Pension funds deal with long liabilities, which makes them natural long-term investors. Sustainable finance strategy supports the actions of pension funds.

The new strategy is calling for the publication of a report for activities that do not have a significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability, which sounds like a "brown taxonomy". PensionsEurope believes that while a brown taxonomy would provide further indications concerning environmental risks, its development might produce negative consequences, especially if not complemented by consistent indicators promoting the greening of enterprises. A brown taxonomy may expose further certain sectors, limiting credit to companies, while these companies need to deal with the challenges of transforming into green or at least greener. It is very important that the European Commission now explicitly recognises the need for a just transition that supports workers and their communities affected by economic activities transitioning. We would advise caution with any sunset clauses for transitioning sectors.

One of the main issues for pension funds is how double materiality may be regulated. The EC plans to ask EIOPA to assess by 2022 the need to review fiduciary duties to reflect inside-out ESG risks including stewardship and the potential need to broaden the concept of the "long-term best interest of members and beneficiaries". The IORP II Directive, which in 2021 has finally been transposed by all EU members states, already requires IORPs to consider ESG risks and disclose information to current and prospective scheme members. The Directive requires IORPs to allocate funds in accordance with the prudent person principle, and it clarifies that this means acting in the best long-term interests of their members as a whole. There are several other provisions covering ESG requirements, which set the most advanced frameworks on ESG in EU legislation. Finally, the IORP II Directive clarifies that the measures should be proportionate to the nature, scale and complexity of the IORP.

Matti Leppälä, Secretary General of PensionsEurope commented on the need to take proportionality into consideration : *"It is alarming that the EC Communication states on double materiality that "This will need* *to be complemented by further action for the 125,000 pension funds in the EU managing collective schemes on behalf of around 75 million Europeans. To enhance their contribution to the Green Deal targets, it is critical that the fiduciary duties of investors and pension funds towards members and beneficiaries also reflect the inside-out ESG risks of investments as part of investment decision making processes." Most of these 125.000 IORPs are very small and the number of IORPs of a meaningful size is only a few thousand. It is vital and a legal requirement that any EU action has to be in accordance with the principle of proportionality and it would also be preferable for any action to take first into consideration the upcoming revision (in 2023) of the IORP II Directive."*

Leppälä continued to say: *"The members and beneficiaries often have an important role in the governance structure of IORPs and this needs to be taken into consideration as individual members often don't make investment decisions. Also important is to know who bears the investment risks: in a defined benefit pension scheme the sponsor company may be liable with all its assets for the pension promise and this needs to be reflected in how investment decisions are made. If an individual member bears the risks this needs to be taken into consideration as well."*

The EC Communication includes many topics that are very important for the EU financial markets and for pension funds as investors. These include the question of systemic risks and non-banking sector, addressing systemic sustainability risks in prudential frameworks, developing accounting standards to cover better ESG risks as well as ESG and financial literacy. We look forward to engaging actively with the EU institutions in the upcoming debates about policy and regulatory actions.

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 **24 member associations** in 17 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 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 **22 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.

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

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.

<u>What PensionsEurope stands for</u>

- 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.

<u>Our members offer</u>

- 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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