6 July 2022

Press Release

PensionsEurope position paper on the EU sustainable finance strategy – One year after

The EU Sustainable Finance Strategy was published by the European Commission one year ago on 6 July 2021. It is built on previous initiatives and reports, such as the report of the High-Level Expert Group on Sustainable Finance and the subsequent legislative package in 2018. The Strategy sets out how it will support the EU Green Deal and Europe's transition to becoming a carbon-neutral continent by 2050.

In the position paper on the EU sustainable finance strategy, PensionsEurope prepared its main positions on relevant topics and initiatives. We have focused on key issues for pension funds based on the views of our members and those are:

- **Double materiality**: PensionsEurope understands that policymakers and society at large are increasing their expectations about pension funds' responsible investment policies, but the specificities of pension funds must be considered. Members and beneficiaries are often involved in the governance structure and the set-up of the investment policy, and their sustainability preferences are incorporated into the decision-making process. Most pension funds have a single investment policy that needs to accommodate all members and beneficiaries and as a result, it must be translated into a single policy. This means that in most cases there is no individual choice. It is not possible for pension funds to copy the existing MiFID or IDD framework, which regulates how advisers should guide retail customers to individual products.
- **Extended taxonomy**: PensionsEurope believes that further development of the taxonomy could provide investors and supervisors with a common framework to assess transition paths, without having to develop their own specific frameworks. We support broadening the scope of the taxonomy to include more sectors in the green taxonomy, sectors that play a role in the transition towards a more sustainable economy (amber), as well as sectors that do not have a significant impact on environmental sustainability (grey) and economic activities that significantly harm environmental sustainability (red). This should lead to a "General Taxonomy" allowing to better advise asset owners on their transition strategies.
- **Social taxonomy**: PensionsEurope believes that a balance in the relationship between an environmental and a social taxonomy needs to be ensured. The social taxonomy should focus on usability. Data is more challenging for social sustainability compared to environmental issues. The social taxonomy should focus on issues where data is available or can become available. Social taxonomy has to be based on international norms and universal principles. The development of meaningful quantitative criteria can be very challenging and reporting requirements should be developed and interpreted accordingly.

- **SFDR**: The implementation of the SFDR has been challenging for pension funds so far due to unclear definitions, a regulation that is targeted at retail investors rather than pension funds' members and beneficiaries, as well as the lack of ESG data. Important outstanding issues in the implementation phase remain such as the proper definition of sustainable investments, the establishment of the right minimum requirements and certain indicators for the principal adverse impacts.
- **Non-financial reporting and accounting standards**: PensionsEurope supports the development of the draft EU sustainability reporting standards and emphasizes the need to better recognize private pensions as an indicator of a good remuneration policy. The current fragmentation is confusing and complex and there is an immediate need to ameliorate the consistency and comparability of sustainability reporting. Consistency between the Taxonomy, the SFDR, the CSRD and the Future Sustainable Reporting Standards is crucial.
- **Financial literacy**: PensionsEurope believes that it is important to encourage greater retail investor engagement by seeking improvements in the level of sustainability expertise of advisors and further integrating sustainability considerations in financial literacy frameworks. The use of technology and innovative solutions to engage members are important.
- **Systemic risks**: It is important that pension funds will have the necessary resources to finance the transition and respond to investment opportunities. Safeguarding financial stability and facilitating sustainable growth must be balanced.
- **ESG data**: Pension funds increasingly want to incorporate sustainability considerations in investments but can face data constraints. Pension funds rely for the moment on several data providers, which represents a significant cost, especially for smaller entities We believe that the necessary regulation and supervision of data providers need to be addressed by the EU institutions.

One year after the publication of the EU sustainable finance strategy, some initiatives have moved forward, and others are still pending. Initiatives such as the further development of the green taxonomy, SFDR level 2 regulation, finalization of CSRD, ESAP and CSDDD etc., have been published and are progressing. Those are crucial initiatives to support Europe's transition to becoming a carbon-neutral continent by 2050. Still to come are the EU proposals on initiatives such as the review of the fiduciary duties of pension funds to reflect sustainability impacts, the social and extended taxonomy, the EU sustainability reporting standards etc.

There is already a long tradition of pension funds aligning their investments with the values and preferences of their members and beneficiaries and the society at large. ESG risks and climate change risks play a significant role in risk management. Pension funds are vocal about sustainability and are increasing their level of ambition of their responsible investment policies. Future EU initiatives need to consider the specificities of pension funds and support transition in a realistic way for the whole sector.

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.