PensionsEurope response to ESAs' survey on templates for Environmental and/or Social financial products under SFDR

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www.pensionsEurope.eu

Question 1: How useful is the highly standardised presentation of the information in this format?

- Useless
- Fairly useless
- X Neither useless nor useful
- Fairly useful
- Very useful

PensionsEurope response:

Many questions related to the Sustainable Finance Disclosure Regulation (SFDR, Regulation EU 2019/2088) and the draft Regulatory Technical Standards (RTS) on ESG (Environmental, Social and Governance) disclosures are still unanswered. As the scope of products that would be subject to the disclosure requirements under article 8 is still unclear (i.e. the concept of promotion is not clearly defined yet), it is still somehow premature to start the discussions on the design of the templates.

The mock-ups of pre-contractual and periodic disclosures illustrate that a highly standardised presentation of the information may be appropriate for classic investment products but would not be adequate for most pension plans. The proposed "one size fits all" approach would not fit with the information needs of pension funds' members and beneficiaries**.**

PensionsEurope emphasizes article 8(3) of SFDR mandates the ESAs to take account of the various types of financial products, their characteristics and the differences between them, as well as the objective that disclosures are to be accurate, fair, clear, not misleading, simple and concise when developing their draft RTS to specify the details of the presentation and content of the information to be disclosed pursuant to Article 8. Despite this, **the proposed draft RTS and templates do not provide any differentiation between the various types of financial products**. The mock-ups illustrate that the draft RTS and the templates are not aligned with the objective that disclosures must be clear, simple, and concise.

Most pension funds' members do not have the skills and knowledge required to have a good understanding of the illustrative mock-ups as they often have limited financial literacy relating to the functioning of capital markets, corporate governance and sustainable finance. Insights from behavioural economics show that in the real world, people do not engage with information they cannot act upon or struggle to understand. Information overload leads to loss of interest and may alienate people from their pensions more generally, as they feel that the communication from their pension fund is too complicated. This may make it more difficult for pension funds to engage members when trying to inform them of situations where action is required. Therefore, **the templates for pre-contractual and product ESG disclosures should be made much simpler and the information should be written in a more accessible wording.** The extent of the information provided on ESG characteristics in pre-contractual and periodic product disclosures should also not be disproportionate compared to the information provided on the pension plan itself. We consider IORPs (Institutions for Occupational Retirement Provision) are in the best position to determine the adequate language and the level of details needed to ensure a sound understanding of the ESG characteristic of the pension plan in pre-contractual and periodic disclosures by members and beneficiaries. In a context where individuals have the possibility to decide on which plan they will adhere to, a high level of complexity in product disclosures may set incentives for individuals to choose a pension plan that remains out of the scope of articles 8 and 11, as the information provided on these pensions plans will seem more accessible, which would be counterproductive to the overarching objective of promotion of ESG products. In many countries, IORPs' members and beneficiaries have no investment choice and can be automatically or mandatorily enrolled, which is stipulated e.g. by the national social and labour law, by sector wide social agreements or at company level by agreements between employer and employee representatives For these pension plans, article 8, 9 and 11 should not apply as the 'greenwashing' objective of the Regulation is irrelevant, as explained in our response to the ESAs' consultation on ESG disclosures. The proposed templates should therefore not be applicable for these pension plans.

The IORP II Directive requires IORPs to provide ESG information to their members and beneficiaries but provides leeway as for the content of the information to be disclosed and the design of the disclosures. Article 41 of the

IORP II Directive requires IORPs to ensure that prospective members who are not automatically enrolled in a pension scheme are informed, before they join that pension scheme, about information on whether and how environmental, climate, social and corporate governance factors are considered in the investment approach. In the case of prospective members who are automatically enrolled in a pension scheme, this information should be provided after their enrolment, as in this case, members do not have the possibility to make an investment choice. In some Member States, the information to be included in pre-contractual and product disclosures for occupational and personal pensions and the design of such disclosures are already defined in the national legislation and some overlapping could arise with the new requirements and templates set out in the draft RTS .

It is also noteworthy **the proposed templates seem to be designed for investment funds' products** and do not fit IORPs' structures and the way they operate. Some of the information to be disclosed would not be relevant in the case of IORPs while other items are not appropriate.

- The mock-ups suggest the binding elements of the investment strategy remain unchanged throughout the whole life cycle of the financial product. This approach would not be appropriate for IORPs as they are expected to review and adapt their processes and instruments on a regular basis.
- The description of the planned asset allocation for a specific financial product is geared towards typical investment funds' products and would not fit the strategic asset allocation of an IORP, which takes account of market developments and regulatory requirements.
- Requiring the listing of the top 25 investments is excessive (as illustrated by the mockup 3) as IORPs often have significant holding in government bonds. Many IORPs also invest through funds and not directly (such as in Germany).

Question 2. More specifically, how useful is the presentation of the information with the use of icons as visual aids (in mock-up 1 and 3)?

- Useless
- Fairly useless
- X Neither useless nor useful
- Fairly useful
- Very useful

PensionsEurope response:

The proposed RTS require very technical information to be disclosed, which most consumers and IORPs' members and beneficiaries will not understand. **It is very challenging to design icons that serve as adequate signposts when the concepts they illustrate remain complex and not readily understandable.** Consumer testing may indicate that consumers prefer the mock-up with icons, as people do have a general preference for pictures over text and it does make the template more appealing. However, consumers will probably not come to a better understanding of the information on the template because icons are used and as such it will not impact behavior significantly. Another issue is that the use of icons as illustrated in the mock-ups makes the text boxes narrower, which does not contribute to the readability of the disclosures.

It is also noteworthy some of the icons proposed in the illustrative mock-ups are not representative of the respective content. The same icons are sometimes used in both the illustrative mock-up for periodic disclosures and the mock-up for pre-contractual disclosures but refer to different content (section on "minimum asset allocation planned for the product" in pre-contractual disclosures and section on "proportion of sustainability-related investments" in periodic disclosures), which can create some confusion.

We would also recommend defining some criteria for the use of icons as they are not applied in a consistent way in the illustrative mock-ups. Sometimes they are illustrating a whole section while in other occasions they are referring to a sub-section.

Question 3. More specifically, how useful is the presentation of the information with the use of graphs as visual aids?

- Useless
- X Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

PensionsEurope response:

The presentation of the information with the use of graphs as illustrated in the mock-ups is not feasible as the proposed graphical representations do not fit IORPs' investment strategies and would therefore be somehow misleading.

As the concept of "promotion of environmental and social characteristics" is not clearly defined yet, any graphical representation will require pension providers to make judgment calls. Many pension funds typically apply multiple exclusion screens (e.g. controversial weapons, human rights abuse, tobacco), but may additionally employ a best-in-class approach in certain sectors. **It is not possible to capture all the elements of a multiple ESG investment strategy in a single graphical representation, not even with a few graphical representations, without excessively simplifying the reality.** For example, many funds exclude investment in companies that produce cluster bombs, so should the graphical representation show that the entire equity and corporate bond portfolio contributes to the characteristics promoted by the product?

The proposed graphical representation would also be misleading the comparison across pension funds or with other products. Pension funds have to invest a significant share of premiums in highly rated government bonds in order to deliver the promised pension with a high degree of certainty (based upon prudential supervisory rules) and to hedge interest rate risk. Pension funds have often invested in green bonds where possible. However, the amount of green bond principals issued is still very low. Beyond green bonds, the scope to implement environmental or social characteristics in government bonds is limited. This means that pension funds with an older membership (and therefore a larger allocation to bonds) may look less sustainable than a fund with a younger membership. The first graph proposed in the section "minimum asset allocation planned for this product" in the mock-up for pre-contractual disclosures and in the section "proportion of sustainability-related investments" in the mock-up for periodic disclosures combines two different types of representation, and its understanding may therefore not be so immediate.

The breakdown of the different sections of responsible investments between different categories is very complicated. The concepts are unclear and there are too many categories. The proposed labels are also somehow too long and could be shortened. They are not easy to understand as the classification is not straightforward. From the perspective of the ESG investment policy, it might be difficult to classify an asset as meeting either an environmental or social objective. Even in the example used in the mock-up, the index provider would presumably screen companies against both environmental and social criteria. It remains unclear how a financial market participant should classify a company that scores well against both elements. It is also difficult to translate engagement and voting policies into a graphical representation and therefore to delineate the companies that meet the E/S characteristics. Should we consider only the companies we engage with as companies that meet the E/S characteristics, or all companies which fall under the engagement policy? Engagement works best when the investor concentrates on those companies and issues where his influence is optimal.

For these reasons, we recommend not requiring any graphical representation of the subcategories. The sectoral representation is less problematic, if the sectors are compliant with the GICS classification. It is not clear however that a sectoral representation would provide meaningful information about the level of sustainability of the investments.

Question 4. More specifically, how useful is the presentation of the information with the use of explanatory notes, in the column at the right side of the document, which are presented on a grey background)?

X Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

PensionsEurope response:

The information provided in a standardised form should be readily understandable for IORPs’ members and beneficiaries. **The proposed explanatory notes still contain jargon and are in fact partly copied directly from SFDR. Unless the reader is familiar with the regulation, the definitions do not seem easy to understand.** Subcategory #1A is more understandable than #1B, as it concerns a negative definition (it is defined as being not a sustainable investment). If definitions and explanations have to be provided, this deeper level of knowledge can be more easily provided in a layered form on the website of the pension provider. The proposed explanatory notes must anyway be somehow simplified and written in an accessible wording.

Question 5. Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products? For example, with regards the distinction between the sub-categories of investments, namely between #1A and #1B?

- Yes
- No

X Other

PensionsEurope response:

The presentational aspects themselves do not make the sustainability aspects of the products harder to understand. The problem lays in the complexity of the concepts and classification. As explained in our answer the previous questions, the reader will meet difficulties in understanding the definition of the proposed categories and the difference between an investment aligned with E/S characteristics and an investment with an environmental objective for example. The labels and explanatory notes should be made simpler.

Question 6. Do you have any other suggestions or comments to improve the presentation of these disclosure documents?

PensionsEurope response:

As explained in our answer to question 1, the mock-ups of pre-contractual and periodic disclosure information illustrate that a highly standardised presentation of the information may be appropriate for classic investment products but would not be adequate for most pension plans. The proposed "one size fits all" approach would not fit the information needs of pension funds' members and beneficiaries**.** PensionsEurope emphasizes article 8(3) of SFDR mandates the ESAs to take account of the various types of financial products, their characteristics and the differences between them, as well as the objective that disclosures are to be accurate, fair, clear, not misleading, simple and concise when developing their draft RTS to specify the details of the presentation and content of the information to be disclosed pursuant to Article 8. Despite this, the proposed draft RTS and templates do not provide any differentiation between the various types of financial products. The mock-ups illustrate that the draft RTS and the templates are not aligned with the objective that disclosures must be clear, simple, and concise.

Question 7. When the templates are presented via digital media, can you foresee any particular challenges? Can you suggest how these particular challenges could be overcome while retaining the core aspects of the standardised template format?

PensionsEurope response:

It is important to ensure the disclosures are easily readable in all digital formats.

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.