



ESG in IORP II

Environmental, social and governance factors Sustainable Responsible Investment

Sustainable Responsible Investment

Environmental



- Climate impact
- Greenhouse gas
 - Emissions
- Energy efficiency
- Water pollution
- Water scarcity
 - Biodiversity
- Site restoration
- ...

Social



- Human rights
- Local community impact/employment
 - Child labour
- Working conditions
- Health and safety
- Anti-corruption practices
- ...

Governance



- Alignment of interests
- Executive compensation
- Board independence
- Board composition
- Voting rights
- Shareholder rights
- ...

Summary of ESG factors in IORP II (< 24/05/2018)

Are ESG factors considered in investment decisions?

Investments

IORPs can simply state that (recital 58):

ESG factors are not considered in their investment policy

By declaring that the costs of a system to monitor such factors are disproportionate to the size, nature, scale and complexity of their activities

Governance system

Risk management

Disclosure of documents

Own-risk assessment (Only if ESG taken into account)

Statement of Investment Principles

Information to be given to prospective members

ESG is addressed in several sections of the IORP II Directive (30/11/2016)

General principles (Recital 58):

- ESG factors are important to the investment policy and risk systems of IORPs
- IORPs are obliged to explicitly disclose where and how these factors are used in investment policy and risk management systems
- At the same time an IORP can choose not to integrate such factors or declare that the costs involved in integrating ESG are disproportionate

Investments (Article 19 1b):

- Within the prudent person rule, member states shall allow IORPs to take into account the long-term effects of investment decisions on ESG factors

ESG is addressed in several sections of the IORP II Directive (30/11/2016)

General governance requirements (Article 21 1):

- The system of governance shall include consideration of ESG factors related to investment assets in investment decisions, and shall be subject to regular internal review

Risk-management (Article 25)

- IORPs are obliged to have a risk-management function and system in place in a manner that is proportionate to their size and internal organization, as well as to the size, nature, scale and complexity of their activities
- IORPs shall adopt strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report to the administrative, management or supervisory body of the IORP regularly the risks, at an individual and at an aggregated level, to which the IORPs and the pension schemes operated by them are or could be exposed, and their interdependencies
- That risk-management system shall be effective and well-integrated into the organisational structure and in the decision-making processes of the IORP
- The risk-management system shall cover (taking account proportionality) ESG risks relating to the investment portfolio and the management thereof

ESG is addressed in several sections of the IORP II Directive (30/11/2016)

Own risk assessment (Article 28)

- IORPs are obliged to perform their own risk assessment in a manner that is proportionate to their size and internal organisation, as well as to the size, nature, scale and complexity of their activities
- Where ESG factors are considered in investment decisions, the own risk assessment should take into account an assessment of new or emerging risks
 - Including risks related to
 - Climate change, use of resources and the environment
 - Social risks
 - Risks related to the depreciation of assets due to regulatory change

Statement of Investment Principles (Article 30)

- The SIP (which has to be reviewed every 3 years) has to mention the way in which the investment policy takes (or does not) into account ESG factors

Information to be given to future members who are not automatically enrolled (Article 41 1 c)

- IORPs have to inform future members, before they join, whether and how the investment policy takes ESG factors into account

Information to be given to future members who are automatically enrolled (Article 41 3 c)

- IORPs have to inform future members, from the moment they have become a member, whether and how the investment policy takes ESG factors into account

New initiative of the EC on sustainable investments

24 May 2018

Proposals on regulations

24 May 2018 - Summary

- In order to start implementing the action plan on sustainable finance the European Commission has developed three proposals of regulation.
 - Regulation on the establishment of a framework to facilitate sustainable investments – [proposal 1](#)
 - Regulation on disclosure relating to sustainable investments and sustainability risks and amending directive 2016/2341 – [proposal 2](#)
 - Regulation for amending the benchmark regulation – [proposal 3](#)

Proposal 2 - Regulation on disclosure relating to sustainable investments and risks and amending Directive 2016/2341

- Disclosure obligations on how institutional investors and asset managers integrate ESG factors in their risk processes
- Requirements to integrate ESG factors in investment decision-making processes, as part of their duties towards investors and beneficiaries, will be further specified through delegated acts

Proposal 2 - Regulation on disclosure relating to sustainable investments and risks and amending Directive 2016/2341

- This regulation also applies to financial market participants and include IORPs. They must provide transparency on:
 - 1. The sustainability risk policy: financial market participants must *publish written policies* on the integration of sustainability risks in the investment decision making process on their website.
 - 2. The integration of sustainability risks: *information in pre-contractual disclosures* on procedures and conditions applied to integrate sustainable risk in the investment decisions, extend to which sustainable risks have an impact on returns and how remuneration policies are consistent with the integration of sustainable risk (for IORPs see IORP II art 41)

Regulation on disclosure relating to sustainable investments and risks and amending Directive 2016/2341

- 3. Sustainable investments in pre-contractual disclosures and on websites: additional disclosure requirements when a financial product has as its target sustainable investments.
- 4. Sustainable investments in periodical reports: Additional disclosure requirements are laid down when a financial product has as its target sustainable investments. For IORPs on the Benefit statement and on the periodical information during the payment phase (IORP II art 38 and 43);

Proposal 2 - Regulation on disclosure relating to sustainable investments and risks and amending Directive 2016/2341

- EBA, EIOPA and ESMA may develop *draft regulatory technical standards* to determine the standard presentation of information on sustainable investments (for pre-contractual, periodic and website disclosures)

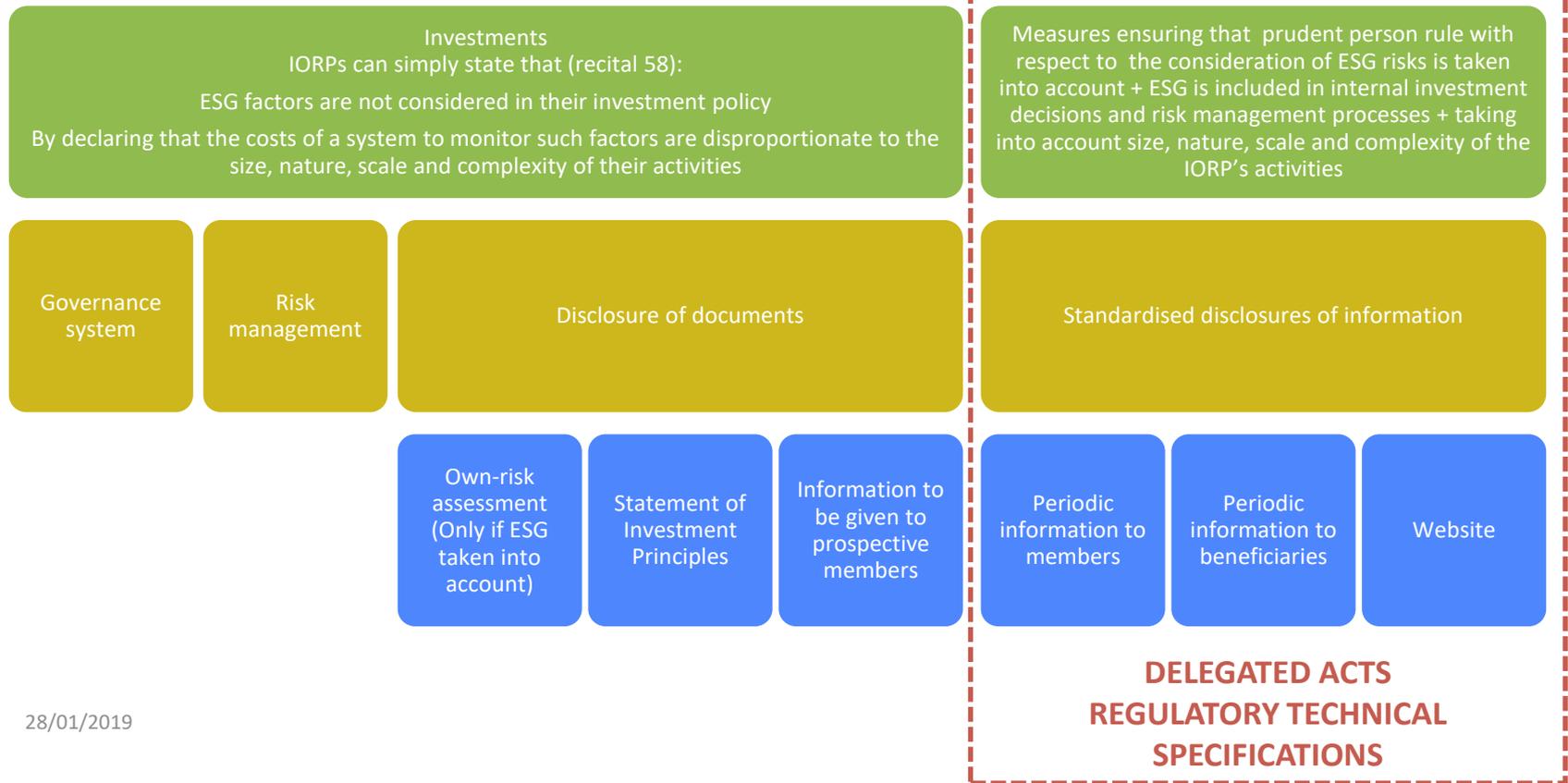
Proposal 2 - Regulation on disclosure relating to sustainable investments and risks and amending Directive 2016/2341

- Article 10 of this regulation amends the IORP II directive
- To article 19, investment rules, the following is added:
 - “9. The Commission is empowered to adopt, by means of delegated acts in accordance with Article 60a, measures ensuring that:
 - *(a) the ‘prudent person’ rule with respect to the consideration of environmental, social and governance risks is taken into account;*
 - *(b) environmental, social and governance factors in internal investment decisions and risk management processes are included.*
 - Those delegated acts shall take into account the size, nature, scale and complexity of the activities of the IORPs and of the risks inherent to these activities and ensure consistency with Article 14 of Directive 2009/65/EC, Article 132 of Directive 2009/138/EC and Article 12 of Directive 2011/61/EU.”
- An article 60a is added to the IORP II directive regarding the “exercise of the delegation”, the power to adopt delegated acts.

Summary of ESG factors in IORP

(> 24/05/2018)

Are ESG factors considered in investment decisions?



Position EU Council versus EU Parliament

Council Position	European Parliament Position
<u>Delegated acts for IOPRs: <i>deleted</i></u>	<u>Delegated acts for IOPRs: <i>kept</i></u>
N/A	<p><u>Due diligence requirements:</u></p> <p>IORPs should have in place ‘<i>due diligence policies</i>’. These policies should incorporate sustainability risks in:</p> <ul style="list-style-type: none"> • Governance • Investment strategy and asset allocation • Risk management procedures • exercise of shareholder voting rights • engagement <p>“Due diligence” is defined as the “<i>continuous process</i> of reasonable care and investigation through which an investor or investment services provider identifies, <i>avoids or mitigates, accounts for and communicates about actual or potential adverse ESG factors and sustainability risks, prior to making an investment</i> and <i>until sale or maturity of the investment</i>”</p> <p>IORPs “shall ensure that <i>identification and management of sustainability risks are sufficiently integrated in their due diligence processes and investment decision-making</i>, requiring investors to avoid or mitigate and account for ESG factors”</p> <p><i>A summary of these policies should be made public.</i> The EC is mandated to adopt <i>delegated acts</i> to specify “an overarching and mandatory framework with minimum standards for the written policies and the due diligence processes”</p>

Position EU Council versus EU Parliament

Council Position	European Parliament Position
<p>Transparency requirements:</p> <p>Transparency requirements as the EC proposed: <i>if IORP incorporates ESG risks, disclose how this is done and what the impact on returns may be. No need to disclose how remuneration policies are set in relation to ESG.</i></p> <p>The Council more explicitly leaves room to state that sustainability risks are not considered to be relevant, provided it is explained why.</p>	<p>Transparency requirements:</p> <p>Along the lines of EC proposal. <i>Additionally, IORPs should disclose due diligence procedures and shareholder voting instructions in relation to ESG.</i></p>
<p>Definition of sustainability risk:</p> <p><i>“an uncertain environmental, social or governance event or condition that, if it occurs, could cause a material negative relevant impact on the value of the investment”</i></p>	<p>Definition of sustainability risk:</p> <p>‘sustainability risks’ comprise:</p> <ul style="list-style-type: none"> • <i>Short-term and long-term risk to the return</i> of a financial or pension product <i>due to exposure to a negative ESG impact of the economic activity</i> • <i>the short-term and/or long-term risk</i> that the economic activities to which a financial or pension product is exposed <i>have negative impacts on the natural environment, on workforces and communities, or on the governance of investee entities</i> <p><i>Annex Ia further specifies what should be considered sustainability risks.</i> The EC is empowered to adopt delegated acts to further clarify the definition.</p>

Source: PensionsEurope

Position EU Council versus EU Parliament

Council Position	European Parliament Position
<p>PEPP: <i>not included</i> in Regulation</p>	<p>PEPP: <i>included</i> in Regulation</p>
<p>Exemptions</p> <p>The rules <i>do not apply to statutory schemes</i> (article 5 IORP2) or <i>small schemes with less than 15 members in total</i>. Member states may choose to opt-in social security schemes.</p>	<p>N/A</p>

Source: PensionsEurope

Merci de votre attention
Dank voor uw aandacht

Vragen/Questions ?

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Thank you for your attention

