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European Commission's Action Plan on Sustainable Finance

COM proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU)2016/2341

COM Proposal for a regulation on the establishment of a framework to facilitate sustainable investment

OPSG 4 July 2018

Ag. 7 Discussion

Matti Leppälä

This presentation

- * What is in the package?
- * What does it mean for occupational pensions?
- * What could be the building blocks of OPSG position?

Quick recap

- HLEG report published in January 2018.
- Action Plan on Sustainable Growth published in March 2018.
- Implementation until end of EC Mandate in Q2 2019.
- First legislative package published on 24 May



Legislative package

- * Legal basis for the taxonomy
- * Regulation on disclosures for institutional investors and introducing power of delegation in IORP2
- * Amending suitability test under MiFID2
- * Amending benchmarks regulation: new categories of ‘low carbon’ and ‘positive carbon’ benchmarks

Legislative package

- * **Legal basis for the taxonomy**
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- * **Amending benchmarks regulation: new categories of ‘low carbon’ and ‘positive carbon’ benchmarks**

Taxonomy proposal

- * Assessing environmental sustainability of economic activity.
- * Measuring degree of environmental sustainability at asset or portfolio level.
- * Six environmental objectives
 - * Climate change mitigation
 - * Climate change adaptation
 - * Sustainable use and protection of water
 - * Circular economy, waste prevention and recycling
 - * Pollution prevention
 - * Protection of ecosystems
- * 'No harm' principle and minimum labour standards.
- * Proposal requires use of taxonomy for financial products marketed as green

Taxonomy – potential OPG position ?

- * Call for clarity on what the taxonomy can and cannot be used for.
 - * Enabling tool for investors, providing clarity about degree of sustainability, useful for reporting
 - * Starting point for labels
 - * However, taxonomy does not capture all responsible investment approaches, e.g. stewardship, best-in-class approaches in polluting industries. Taxonomy should not be seen as ‘silver bullet’.
 - * Should not lead to pressure towards specific investments or divestments
 - * Will it be sufficient solid to base prudential and governance requirements on taxonomy?
- * Flexibility – taxonomy should be adaptable
- * Need to expand taxonomy to ‘S’ and ‘G’ (in line with OPG position)

Investor duty - disclosure

Insurers, insurance intermediaries, IORPs and asset managers will have to **disclose**:

- the procedures and conditions applied for integrating sustainability risks
- the projected impact on returns
- how remuneration policies are consistent with the integration of sustainability risks
- products **marketed as 'sustainable'** need to disclose more details: overall sustainable impact of product, screening criteria, data sources
- for **passive ESG products**, there should be an explanation about the chosen benchmark
- for products focussing on **reduction of carbon emissions**, providers should use the new EU low carbon benchmark (unless not available)

Investor duty - disclosure

What's in scope

- * IORPs
- * IBIP, PRIIPs pension products, insurance advise by intermediaries
- * AIF, UCITS, portfolio management, EuVECA, EuSEF

How to disclose:

- * Written policies on website
- * Information included in pre-contractual disclosures or prospectus (for IORPs -> information to prospective members)
- * Joint Committee will develop RTS on disclosure
- * Definition of 'sustainable' still broad (e.g. E not limited to taxonomy)

Investor duty – fiduciary duty

No proposal yet but **power of delegation** in IORP2 Directive to ensure that:

- * ESG is taken into account under prudent person rule (‘Member States shall not prevent ESG integration’)
- * ESG factors are included in investment decisions and risk management

What else to observe?

- * Delegated acts to take account of proportionality (in line with Recital 58 IORP2) -> quantitative thresholds?
- * Level 2 approach chosen to have harmonised approach with Solvency II, UCITS etc.
- * Some elements of HLEG recommendation not (yet?) implemented: consultation of members and beneficiaries

Investor duty – OPSCG position ?

- * Delegated acts not the right tool for IOPR2
 - * Co-legislators removed all delegated acts from IORP2 proposal, recognising national regulators are better equipped to fill in details on e.g. risk management.
 - * IOPR2 still under implementation, so from ‘better regulation’ standpoint preferable to see current ESG provisions implemented.
- * Disclosures welcome for asset owners and beneficiaries to understand how sustainable their investments are.
- * Balance between transparency and costs (two negative opinions of Regulatory Scrutiny Board), e.g. when it comes to sustainability-related impacts of investment

Preparation of OPSG opinion

- * Lead and others?
 - * Matti/Fieke?
 - * Others interested to participate?
- * Time table?
 - * Before September
 - * Conference call? When?
 - * Written procedure for adoption in August