PensionsEurope response to ESAs' joint consultation on ESG disclosures

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Introduction and general considerations

PensionsEurope welcomes the opportunity to comment on the ESAs joint consultation on ESG disclosures[1] and supports the purpose and rationale for the new ESG related disclosures, as stated in the Sustainable Finance Disclosure Regulation (SFDR). We recognise there is a need to increase transparency in the field of sustainability risks and sustainable investment opportunities in order to mobilise capital from the financial services sector and foster the green transition.

Notwithstanding this, the lack of flexibility of the new disclosure requirements raises concerns as a "one-size fits all" approach does not always reflect market realities and would not fit the information needs of pension funds' members and beneficiaries. In many countries, pension funds' members and beneficiaries have no investment choice and can be automatically or mandatorily enrolled. We urge the ESAs to take into consideration their perspective on the disclosures, which differs significantly from that of retail clients proactively seeking to buy a responsible or sustainable financial product.

Principal Adverse Impact (PAI) disclosures (article 4 SFDR)

Referring to the Principal Adverse Impacts (PAIs) disclosures, PensionsEurope recommends the ESAs to allow financial market participants (FMPs) to prioritise the adverse impacts and select the relevant indicators on the basis of their materiality. The implementation of mandatory PAI disclosure requirements should adopt a transitional phase-in approach, in line with the availability of necessary ESG data on investee companies and the review of the NFRD.

We support the proportionality considerations adopted in the application of the PAI disclosure requirements. Most pension funds are small entities and they may not have the capacities to implement in full the PAI disclosures. Below the threshold of 500 employees, the voluntary application of due diligence for adverse impacts should not imply mandatory disclosure against the full set of 32 indicators. Otherwise, financial market participants (FMPs) with less than 500 employees would be strongly disincentivised to do any due diligence, as it would imply immediately full reporting against the indicators.

Pre-contractual product disclosures (article 8 and article 9 SFDR)

The scope of article 8 and article 9 products must be clarified. Uncertainty on the scope of article 8 and article 9 should be minimised as it creates legal risk for FMPs.

The disclosures proposed under article 8 and article 9 should fit with the information needs of pension funds' members and beneficiaries. It is important to stress that individuals face behavioural barriers and potentially lack financial literacy. . Information overload in pensions disclosures should be minimised as it may further disenfranchise individuals from their pensions. For this reason, disclosures should be made much simpler, allowing as much as possible the layering of information.

The application of an investment policy which takes into account ESG elements simply from a governance, a prudential or a risk perspective should not automatically lead to excessive product disclosures. In many countries, pension funds' members and beneficiaries do not have the possibility to make an investment choice. In this case, the 'greenwashing' objective of the Regulation is irrelevant as ESG is never used as a selling point and the pension fund itself must be considered as the end investor. Therefore, it would be inappropriate to impose to these pension funds the same transparency requirements than those applying to big commercial financial entities. We do not expect pension funds to offer Article 9 products, as the primary objective of a pension fund will always be to deliver good risk-weighted returns for its members and beneficiaries.

[1] Draft regulatory technical standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a, Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088.

Data challenges

PensionsEurope draws attention to the need to ensure all indicators required for the purpose of ESG disclosures are technically feasible. The availability of ESG data at the level of investee companies is currently rather insufficient to enable FMPs to comply with the new disclosure requirements with the level of precision required by the draft RTS. The draft RTS seem to be designed for fairly simple retail funds, consisting mainly of listed equity and fixed income securities, for which a lot of data is already available. Pension funds' portfolios are more complex and encompass all types of (long-dated, non-leveraged) assets, including private equity, real estate, infrastructure, private debt, securitised assets and commodities. While these alternative assets only represent a minor part of the portfolio, reporting is required against all assets. Although we recognise the benefits of considering the social and environmental impact of some of these categories of assets, it is noteworthy that data is often completely missing. For these reasons, the administrative burden of full compliance against the draft RTS may be much higher for a pension funds than e.g. retail fund managers.

The best effort approach to obtain data from companies does not reflect the operational realities of pension funds. Article 7(2)a implies that financial market participants should first aim to obtain any missing data on the adverse impact indicators from investee companies. In reality, financial market participants will rely on external data suppliers that will collect data directly from investee companies or conduct their own research to arrive at reasonable estimates. It is simply inefficient to require every single asset manager, insurer and pension fund to reach out on their own. Some pension funds have over 10 000 investee companies in their portfolio considering only listed equity and fixed income, which makes it too burdensome to engage with every single company for which some of the required indicators are missing.

Implementation timeline

We appreciate the action of the ESAs to highlight to the European Commission the extremely tight implementation timeline. We urge the ESAs to continue to put forward this message, as no action to mitigate this issue has been taken so far. We are very concerned that our members will not be able to achieve compliance with SFDR within the timespan as SFDR will apply from 10 March 2021 while It is expected that the draft RTS will be finalised by end of January 2021.

In addition, we also identified important practical issues related to the reporting calendar. If the first PAI report has to be issued by June 2022, FMPs will have to start monitoring the indicators for PAI from June 2021, while the necessary information on investee companies is not expected to be readily available in the medium run and the draft RTS is expected to be finalised by end January 2021, leaving very little time for FMPs to develop their reporting systems. We would recommend requiring the first PAI report to be released by Q2 2023, covering a period from January 2022 to December 2022.

Referring to pre-contractual product disclosures, we identify important practical issues if the disclosure requirements apply for the first time to those annual reports that will be issued from 01 January 2022 (pension funds with 31 December year-end) and from 1 October 2021 (pension funds with 30 September year-end) as these annual reports would cover a period prior to the implementation date of SFDR. It is noteworthy the draft RTS will be not finalised before end of January 2021, which leaves very little time to FMPs to adapt their reporting systems. Moreover, for those annual reports with year-end on 30 September 2021, the disclosures would have to cover a period starting in October 2020, much before the release of the final draft RTS. For this reason, we would recommend applying the disclosure requirements for the first time to those annual reports covering a reference period starting in January 2022, i.e. annual reports that will be issued in Q1 2023 or Q3 2023.

Question 1: Do you agree with the approach proposed in Chapter II and Annex I – where the indicators in Table 1 always lead to principal adverse impacts irrespective of the value of the metrics, requiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an "opt-in" regime for disclosure?

PensionsEurope response:

PensionsEurope supports the proportionality considerations adopted in the application of the disclosure requirements set up under article 4 of the Sustainable Finance Disclosure Regulation (SFDR). The implementation of the Principal Adverse Impacts (PAIs) disclosure requirements will be costly and burdensome, in particular for smaller entities - 34 indicators is too many. Without any proportionality consideration in the application of the requirements, there is a risk that smaller entities will not be able to fully comply with the requirements. In this sense, PensionsEurope welcomes the proportionality considerations adopted under article 4 of SFDR and emphasised under recital 9 of the draft RTS on ESG disclosures according to which financial market participants (FMPs) below a threshold of 500 employees would not be subject to mandatory PAI disclosures at entity level against the full list of 32 indicators but should at least explain where they do not consider adverse impacts of investments decisions on sustainability factors and the reasons for not considering them. We would also recommend the European Commission to maintain the reference to the average number of employees in Article 4(3) and (4) through the evaluation of SFDR planned by December 2022, under article 19 of SFDR. It is important to note that most pension funds have less than 500 employees and they may not have the capacities to implement in full the disclosures required under article 4 and specified in the draft RTS.

PensionsEurope notes the focus on retail investors in the draft RTS and calls for appropriate rules for IORPs. The draft RTS must recognise the specificities of IORPs' members and beneficiaries and their information needs, avoiding stifling IORPs with inappropriate and burdensome rules with very little added value in improving members and beneficiaries' ESG awareness. According to the IORP II Directive, IORPs are financial institutions with a social purpose which are often managed by social partners. They are not considered as providers of financial products as such but more as executors of a pension promise by the sponsoring undertaking to its employees. In many countries, IORPs have no commercial character and there is no competition between them due to the rules laid down in national social and labour law. It would be inappropriate to impose to these IORPs the same transparency requirements than those applying to big commercial financial entities. It is also worth mentioning IORPs are on the demand side of the financial markets, e.g. when they invest in a fund. To a certain extent, IORPs should be considered as end-investors. In most Member States, IORPs are very small entities, which makes them very sensitive to any additional administrative burden. Against this background, **PensionsEurope welcomes that most IORPs will be allowed to comply with the PAI disclosure requirements on a voluntary basis.**

It would also be important to specify that **below the threshold of 500 employees, the voluntary application of due diligence for adverse impacts should not imply mandatory disclosure against the full set of 32 indicators.** Otherwise, FMPs with less than 500 employees would be strongly disincentivised to do any due diligence, as it would imply immediately full reporting against the indicators. Considering that most of the required data on investee companies is not readily available (see below), complying with the new disclosure requirements will require a significant effort with significant costs for FMPs. Moreover, the 32 indicators are too many to practically use in an investment strategy and it is impossible to mitigate impacts along all indicators. As a result, smaller market participants may be driven in the wrong direction as they would be asked to cover all the required information instead of addressing the relevant material PAI. In case that disclosure is required against the full list of 32 indicators when financial markets participants with less than 500 employees apply due diligence for ESG PAI, the high costs and efforts needed for the data collection exercise might set incentives for those FMPs to use the "explain" approach and not apply due diligence. Similarly, investment approaches such as e.g. excluding certain assets should not lead to mandatory disclosure against the 34 indicators.

Above the threshold of 500 employees, PensionsEurope recommends the ESAs to allow FMPs to prioritize the adverse impacts and select the relevant indicators on the basis of their materiality. We would recommend:

- Adopting a transitional phase-in approach for the implementation of mandatory PAI disclosure requirements, in line with the availability of necessary ESG data on investee companies and the review of the NFRD.
- Allowing a materiality assessment to apply or disapply indicators to sectors.
- Applying mandatory indicators to listed equity portfolios only, as data is lacking for other types of assets.
- An alternative solution would consist in requiring FMPs to provide a qualitative presentation on how they assess the PAIs at entity level around 4 pillars: strategy, governance, risk management and indicators. Entities would only be required to provide a quantitative or qualitative assessment of the PAIs based on a set of indicators at product level.

Materiality based on severity and likelihood of the impacts is crucial and disclosure should be about identifying the relevant material sustainability aspects for FMPs considering their actual asset, sector and company allocations, which would set the right incentives for investors to act where they can make a difference. Although we agree there are common areas of indicators for "principal" adverse impacts for society and ecology, an assessment of the PAIs should be based on the likelihood and the severity of a risk materializing, which is strongly dependent on entity-specific portfolios. We consider only relevant principal adverse sustainability impacts should be counted as such and disclosed. It is worth noting that only a small percentage of assets from certain sectors (the "5%") make up for most of the greenhouse gas emissions (the "95%"). From a "materiality" perspective, disclosure should only cover these assets. The concept of materiality of investments must remain principle-based and should be defined and disclosed by investors.

The Disclosure Regulation is mostly inspired by the OECD guidelines on responsible business conduct for institutional investors. OECD-style due diligence recognises that it is impossible for institutional investors to address all adverse impacts of their investments, which implies there is a need for prioritization of adverse impacts. The notion of materiality for non-financial reporting under the NFRD also reflects this need for prioritization. It is also noteworthy that not all the proposed indicators are relevant for all sectors. For example, many of the environmental indicators will be less relevant for services industries and will de facto not lead to mitigation through engagement or divestments. Considering the Regulation only requires reporting on policies and not on actual actions for mitigation, requiring such a comprehensive set of indicators to be reported for the entire portfolio goes too far.

The Disclosure Regulation does not provide a definition of adverse impact. While Article 4(6) empowers the ESAs to specify the details of the indicators in relation to adverse impacts, it can be questioned whether this mandate implies mandatory reporting against a full set of 32 indicators. This would entail filling in a central, but undefined, concept through a regulatory technical standard. Provided the choice of the legislator not to define the concept, there should remain choice for FMPs to select indicators most material for their portfolio.

The proposed approach implies that any positive value in a specific indicator triggers adverse impact (whether principal or not) which is not appropriate for some of the proposed indicators such as those based on ratios (executive pay or board diversity, for example).

The aggregation of principal adverse impact indicators at entity level is not going to be helpful for end-investors and is actually misleading since it does not take into account the variety of impacts that investee companies can create. Aggregating this data would be against providing a clear, exact and not misleading information.

As a first step of an optimal PAI assessment process, FMPs would undertake a general assessment or plausibility check of sustainability indicators with the purpose to identify the main PAI indicators. As a second step, a detailed quantitative analysis of the key PAI indicators would be carried out. The results of this analysis would also be relevant to the investment decision process. This approach would be compatible with a common due diligence process as this would not imply, for example, checking the exact quantitative data of CO2 emissions of every company in "non-critical" sectors. It is noteworthy that according to the TEG report from March 2020, only a few NACE macro sectors are responsible for the mitigation of climate change for 93.5% of direct greenhouse gas emissions.

If a set of mandatory indicators is imposed to all FMPs to ensure comparability, we would recommend reducing it to **no more than half a dozen core indicators**. There are different approaches to define the set of mandatory indicators: focusing on those indicators where data is readily available, on those indicators for which the "construction" of the indicator is the most straightforward in order to provide quality information or choosing the most important ones from an environmental and social perspective.

An alternative solution would be to require FMPs to provide a qualitative presentation on how they assess the PAIs at entity level. Standards such as the TCFD which have been adopted on an international basis allow for a presentation of the process around 4 pillars: strategy, governance, risk management and indicators. This approach would be consistent with the level 1 disclosure requirements set up by SFDR, on "content, methodologies and presentation of information" to be disclosed. FMPs would only be required to provide a quantitative or qualitative assessment of the PAIs based on a set of indicators at product level. The indicators would be selected based on their materiality.

PensionsEurope draws attention to the need to ensure all indicators required for the purpose of PAI disclosures under article 4 of SFDR are technically feasible. The availability of ESG data at the level of investee companies is currently rather insufficient to enable FMPs to comply with the PAI disclosure requirements and provide meaningful disclosures as specified in the draft RTS. ESG data on investee companies necessary to produce most indicators is currently not comparable, reliable, and importantly, also quite expensive. Moreover, ESG data is often of poor quality and not all ESG data providers are transparent about the methodologies and raw underlying data used in their analysis. It is also noteworthy that ESG data providers and rating agencies have often achieved an oligopolistic position that allows them to increase fees and customer costs. As a result, FMPs will face important challenges and difficulties in complying with the PAI disclosure requirements with the level of precision required by the draft RTS.

PensionsEurope welcomes the European Commission's intention to review the Non-Financial Reporting Directive (NFRD) to improve ESG data availability and we are confident that the NFRD review will ensure the information required to comply with the PAI disclosure requirements will be reported by investee companies. However, the PAI disclosure requirements at entity level will apply to FMPs' entire portfolios while the NFRD review will not fill the data gap for non-EU investments. Furthermore, the process for the review of the NFRD has just started and the Commission's proposal will be adopted in the first quarter of 2021. If the first PAI report has to be presented by June 2022, FMPs will have to start monitoring the indicators for PAI from June 2021, while the necessary information on investee companies is not expected to be readily available in the medium run and the draft RTS is expected to be finalised by end January 2021, leaving very little time for FMPs to develop data feed and reporting systems.

Against this background, **PensionsEurope recommends the ESAs to adopt a transitional phase-in approach for the implementation of mandatory PAI disclosure requirements for FMPs above the threshold of 500 employees, in line with the availability of necessary ESG data on investee companies and the review of the NFRD**. The PAI disclosures against the proposed indicators should not be mandatory in a first stage at least until ESG data needed to produce the indicators is readily available in a standardised electronical format. One possible solution could consist in requiring mandatory disclosures of PAI indicators to be presented for the first time in

June 2023. In June 2022, we propose that FMPs above the threshold of 500 employees are allowed to present the PAI report on a voluntary basis.

It is also worth mentioning that PensionsEurope recommends the Commission and EU authorities to promote the development of an open source EU ESG data register[2] as this would help fill the gap between companies' current reporting and the information investors need to be able to comply with the new disclosure requirements, including PAI disclosures. The establishment of the register would somehow mitigate some of the data challenges faced by investors, although only partly.

The whole EU framework for sustainable finance should adopt a holistic approach. In this sense, PensionsEurope recommends ensuring consistency between the draft RTS and other relevant policy developments. As recognised by the ESAs, there is a strong link between the concept of "do not significantly harm" (DNSH) under SFDR and the same notion under the taxonomy regulation applied to environmental activities. Both should be largely consistent and use the same approaches for determining their criteria and indicators. As mentioned above, coherence with the review of the NFRD review and availability of ESG data on investee companies must also be ensured.

Question 2: Does the approach laid out in Chapter II and Annex I, take sufficiently into account the size, nature, and scale of FMPs activities and the type of products they make available?

PensionsEurope response:

Although article 4 of the Disclosure Regulation specifies that the PAI disclosure requirements at entity level should take due account of the size, the nature and scale of FMPs' activities and the types of financial products they make available, **Chapter II of the draft RTS on transparency of adverse sustainability impacts and Annex I on the template for PAI statement adopt a "one size fits all" approach without any consideration of the size, nature and scale of FMPs or the type of products**. Considering the differences between all the entities captured as "FMPs" under the Disclosure Regulation[3], we would however recommend the ESAs to consider the possibility of differentiating between size, nature, and scale of FMPs' activities for the purpose of PAI disclosures to ensure that the disclosure requirements are proportional and feasible. It is worth noting that while several stakeholders were consulted for the elaboration of the draft RTS, the Occupational Pension Stakeholder Group (OPSG) is not mentioned in Recital 42. We assume the Members of the OPSG were not consulted and wonder how the perspective of IORPs was considered when drafting the RTS. FMPs should also have a certain degree of discretion to implement the requirements in line with their specific investment portfolios and the type of products they make available. As mentioned in our answer to question 1, FMPs should be allowed to prioritize the adverse impacts and select the relevant indicators based on their materiality and their relevance for the nature of their activities.

The Disclosure Regulation requires reporting on applied due diligence policies but does not set up any requirements on outcomes and actions. This means the reported information must aim at the mitigation of adverse impacts. It is noteworthy smaller FMPs will have less ability to dedicate resources to engagement. Many

[2] In its response to the European Commission's consultation on the review of the Non-Financial Reporting Directive (NFRD), in its response to the European Commission's consultation on the renewed sustainable finance strategy and in a joint letter addressed to the European Commission, PensionsEurope identifies the data challenges faced by pension funds and the urgent need to set up a EU ESG data register.

[3] "The scope of the SFDR is extremely broad, covering a very wide range of financial products and financial market participants." (p. 6)

pension funds have only relatively little staff resources to keep the costs of investments low. Having more limited resources, pension funds need to prioritize their mitigation efforts and only pick those issues where the impact is most relevant. The proposed RTS does not allow FMPs to focus on those indicators and sectors where the impact of investment is deemed to be most 'principal', which would however mitigate the financial and administrative burden due to extensive data collection.

As mentioned in our answer to question 1, **PensionsEurope supports the proportionality considerations adopted in the application of the disclosure requirements set up under article 4 of the Sustainable Finance Disclosure Regulation (SFDR)** and clarified under recital 9 of the draft RTS on ESG disclosures, according to which FMPs below a threshold of 500 employees would not be subject to mandatory PAI disclosures at entity level against the full list of 32 indicators but should at least explain where they do not consider adverse impacts of investments decisions on sustainability factors and the reasons to not consider them. It is important to note that most pension funds have less than 500 employees and they may not have the capacities to implement in full the disclosures required under article 4 and specified in the draft RTS. It would also be important to specify that **below the threshold of 500 employees, the voluntary application of due diligence for adverse impacts should not imply mandatory disclosure against the full set of 32 indicators which should remain voluntary** and take due account of the size, nature, and scale of IORPs' activities and the type of products they make available. If voluntarily implementing due diligence will entail significant administrative and financial burdens, this may deter pension funds to voluntarily implement due diligence process for adverse impacts.

Question 3: If you do not agree with the approach in Chapter II and Annex I, is there another way to ensure sufficiently comparable disclosure against key indicators?

PensionsEurope response:

As explained in our answers to the previous questions, **the framework should provide leeway to FMPs to decide which indicators are material for the sectors they invest in**. Disclosure of environmental characteristics against investors' whole portfolio would not be appropriate, as it does not show which investments have the biggest impact and large part of the portfolio have very limited scope to improve. The aggregation of principal adverse impact indicators at entity level is not going to be helpful for end-investors and is actually misleading since it does not take into account the variety of impacts that investee companies can create. Aggregating this data would be against providing a clear, exact and not misleading information.

As explained in our answer to question 1, FMPs must be allowed to choose concrete indicators from a principal-based perspective considering the materiality of the negative sustainable impact of their investments. If a set of mandatory indicators is finally imposed to all FMPs to ensure comparability, we would recommend reducing it to no more than half a dozen which would set incentives for all FMPs to disclose even if they are not required to do so. There are different approaches to define the set of mandatory indicators: focusing on those indicators where data is readily available, on those indicators for which the "construction" of the indicator is the most straightforward in order to provide quality information or choosing the most important ones from an environmental and social perspective.

As explained in our answer to question 1, **ESG data on investee companies necessary to produce most indicators is currently not comparable but also not reliable and importantly quite expensive**. Moreover, ESG data is often of poor quality and not all ESG data providers are transparent about the methodologies and raw underlying data used in their analysis. The correlation between data provided by different ESG data providers is often low. Against this background, ensuring comparability disclosures remains challenging. This means that even if reporting under the proposed RTS may seem comparable, disclosures will remain very divergent and not comparable depending on the ESG data providers involved in the process. More reliable and streamlined corporate reporting is needed to ensure comparability. If corporate reporting would be reliable and comparable, it would be easier for pension funds to meet the proposed requirements and comparability of disclosures would improve. However, we are currently a long way off from this situation. The NFRD review may improve the situation, but as many pension funds are global investors, it will not cover their entire portfolio. Besides the geographical scope gap, the NFRD will also not apply to all asset classes. Finally, pension funds will have to comply with the Disclosure Regulation for at least a few years before a revised NFRD will get into force.

Question 4: Do you have any views on the reporting template provided in Table 1 of Annex I?

PensionsEurope response:

The reporting template provided in Table 1 of Annex I seems to be very rigid and time consuming. The question of the lay-out of the template itself is related to the more important questions around the feasibility and availability of data.

We would also like to note the requirement to provide the summary of Table 1 in an official language of the Member State, and in English if this language is not customary in the sphere of international finance. While this might be useful if the entity is active across Europe, this is not necessary if the entity is only active in one Member State. This requirement also increases the efforts FMPs need to provide in order to comply with the PAI disclosure requirements.

Efficiency and data consistency must be ensured for those cases where more than one FMPs is involved in the investment chain: any duplication of disclosures for the same assets should be avoided. This may be the case if a FMP such as a pension fund invests indirectly via an investment fund or an asset manager. For that purpose, it should be clarified in the recitals of the draft RTS that the "first" or more immediate FMP in the investment chain must have the original obligation to collect data and to provide the information to other FMPs involved in the same investment chain. The RTS should take account of customer-service provider relationships among FMPs and ensures that unnecessary duplication is avoided. Pension funds and other "indirect" investors must receive the information in a timely manner and in an appropriate form so that they can meet the requirements themselves.

We would also like to stress that in the case of mandates, **when asset managers provide customised management of pension funds' assets, transparency is between pension funds and their asset managers and confidentiality is of primary importance.**

Question 5: Do you agree with the indicators? Would you recommend any other indicators? Do you see merit in including forward-looking indicators such as emission reduction pathways, or scope 4 emissions (saving other companies´ GHG emissions)?

PensionsEurope response:

As explained in our answer to the previous questions, **ESG data on investee companies necessary to produce most PAI indicators is currently not available.** If new systems are set up and companies develop their disclosure further, this should be done in a way which leads to the most useful data to foster the transition.

We see merits in including forward looking indicators for the purpose of principal adverse impacts disclosures under article 4, in order to ensure that the new framework adequately fosters the transition. Rather than providing information on for example carbon emissions over the past decade, forward-looking indicators including information on the emission reduction pathways would be more appropriate and should respond to several questions such as:

Does the company have a climate strategy?
Is this strategy aligned with the Paris Agreement?
Is the management able to pursue their strategy and the company technologically equipped for that purpose?

In general we would suggest the adoption of a transition period, which would give the industry sufficient time to develop reporting standards and improve data quality.

The principal adverse impacts disclosures should require fewer indicators than the proposed list of 32 indicators, but the chosen indicators should accurately reflect the situation. Indicators will also have to be assessed as to whether they are business sensitive.

We understand the share of the portfolio covered under Table 1 is not being disclosed although this would be a relevant information that needs to be disclosed.

More specifically, we have the following feedback on individual indicators:

- **Indicators 1-4 (greenhouse gas emission)** are relevant but there is not much (reliable) scope 3 emissions data. The reporting of scope 3 emissions is currently undesirable as data remains of low quality and low comparability across data providers (research shows close to no correlation between scope 3 data sets). Down the road we however believe that the reporting of scope 3 emissions might be desirable, but only for specific sectors where these are most material. The first indicator, "total carbon emissions" does not include any information about the sectors invested in. This means that a portfolio investing in equities of e.g. banks or other service providers will score much lower than a portfolio investing in more energy intensive activities, even though investors can have a greater impact in fostering the green transition investing in the energy sector.
- Regarding the proposed greenhouse gas emissions indicator, if this needs to be reported for each portfolio holding, we expect to run into contractual challenges since company-specific emissions data remains the property of the provider from whom the data is sourced. We do not believe it would be possible to disclose holding-specific information for the whole portfolio.
- **Indicators 5-7** (energy consumption and CO2): although these indicators are relevant, there is an overlap with previous indicators. Few companies disclose on these indicators or have energy consumption data per NACE sector. There is limited benefit next to existing and forward looking CO2 disclosures.
- **Indicator 8: Energy consumption of investee companies** per million EUR of revenue of those companies (in GWh), expressed as a weighted average. This indicator seems to make no distinction between different sectors (those that are energy intensive and those that are not), the uses of energy and the sources of energy. We are not sure what useful information this indicator is intending to show or the adverse impacts that it is supposed to substantiate or underline unless it is compared to a benchmark of its peers.
- **Indicators 9-11 (biodiversity & ecosystem):** data is not available and if it is available, it is general info. In addition, deforestation (11) is only relevant for some investment and is not useful in all cases. It makes no distinction between companies/sectors for which deforestation is a material issues and those for which it is not. This may differ significantly not only per sector, but also the region in which a company or its suppliers operate. It would not justify the mandatory obligation to use this one.
- **Indicators 12-14 (water)**. Water emission (12) is relevant and data available in m3. We recommend deleting 13 & 14. They are difficult to define and leave room for interpretation.
- **Indicators 15 & 16 (generated waste versus generated non-recycled waste):** potentially relevant.

- **Indicators 17-22 (Social and employee matters)** ILO Conventions, whistleblower protection and workplace accident prevention policies relevant. How to interpret excessive CEO pay ratio and Board gender diversity indicator for the purpose of the PAI?. The gender pay gap is currently not available, although EU legislation may change this going forward.
- **Indicators 23-29 (human rights):** most are relevant but some only in relation to certain high-risk companies and sectors such as preventing trafficking in human beings. What are controversial weapons?
- **30-32 (corruption and bribery):** in indicator 31 ‘insufficient action’ is very vague and will lead to very divergent outcomes. Data seems missing for indicator 32.

For the following indicators, FMPs will face difficulties in achieving comparable and standardised data on investee companies. For this reason, we would recommend definitively removing them from table 1. Overall, the list should be shortened to no more than half a dozen indicators.

- 1. Scope 3 carbon emission
- 5. Total energy consumption of investee companies from non-renewable energy sources (in GWh), expressed as a weighted average.
- 7. Energy consumption intensity and 8. Energy consumption intensity per sector
- All the indicators related to biodiversity: 9. Biodiversity and ecosystem preservation practices; 10. Natural species and protected areas and 11. Deforestation.
- 13. Exposure to areas of high-water stress.

For a couple of indicators, we also consider that the concept of materiality has not sufficiently been taken into account. It would be important that the framework takes account of the possibility that certain indicators may be relevant only for a subset of companies. This underlines again the need for a more principle-based approach, where FMPs may choose a sub-set of indicators which are more relevant for their portfolio.

The aggregation method based on which the values of each investment are simply added up for each indicator, may lead to misinterpretation of the disclosures. It is not easy to interpret a value for a specific indicator if no accompanying information is being provided about the sectoral allocation or without information on benchmark developments - for example an investment in the mobility or real estate sector will lead to a higher value of GHG emissions indicators than investing an investment in finance even if the former might be an investment that contributes more to the green transition. An investment or financial product that contributes more to the green transition may have a worse indicator than other financial product that does not invest in critical sectors. A central question is how an indicator aggregated over around thousands of investments will inform end-investors about the real sustainability impact of the investments.

It seems that while there are many organisations involved in the development of the environmental indicators, there is a lack of stakeholder involvement in the development of the social indicators. We therefore suggest the involvement of the Council of Social Ministers as well as the Social Partners for questions around labour and social standards. Any standards already agreed should be taken into account in this process.

Question 6: In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in also requesting a) a relative measure of carbon emissions relative to the EU 2030 climate and energy framework target and b) a relative measure of carbon emissions relative to the prevailing carbon price?

PensionsEurope response:

No, adding more complexity does not lead to a better understanding by the average pension fund participant or retail investor. If the aim is to keep things understandable it is necessary to reduce the amount of indicators. For retail investors it will actually be more difficult to compare and therefore take investment decisions on the basis of PAIs if more indicators are added.

Question 7: The ESAs saw merit in requiring measurement of both (1) the share of the investments in companies without a particular issue required by the indicator and (2) the share of all companies in the investments without that issue. Do you have any feedback on this proposal?

PensionsEurope response:

The question is whether this additional information will not confuse the party receiving this information and whether the difference in drivers of (1) and (2) is sufficiently understood.

Question 8: Would you see merit in including more advanced indicators or metrics to allow FMPs to capture activities by investee companies to reduce GHG emissions? If yes, how would such advanced metrics capture adverse impacts?

PensionsEurope response:

We would see merit in including more advanced indicators or metrics to allow FMPs to capture activities by investee companies to reduce GHG emissions as long as these indicators are voluntary by nature. Metrics such as 'avoided emissions' are based on a theoretical concept, and the calculation is strongly dependent on the assumptions used in that calculation. Hence, these advanced metrics are prone to green washing if used loosely.

We see merits in including forward looking indicators for the purpose of principal adverse impacts disclosures under article 4, in order to ensure that the new framework adequately fosters the transition. Notwithstanding this, the framework should not impose a double approach based on forward-looking indicators on top of historical data and only select one of these options. Rather than providing information on for example carbon emissions over the past decade, forward-looking indicators including information on the emission reduction pathways would be more appropriate and should respond to several questions such as:

- Does the company have a climate strategy?
- Is this strategy aligned with the Paris Agreement?
- Is the management able to pursue their strategy and the company technologically equipped for that purpose?

Question 9: Do you agree with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators?

PensionsEurope response:

Yes, we agree that adverse impact metrics should cover the full spectrum of ESG issues. Social issues should not be underrepresented compared to environmental issues. However, we would like to stress again the importance to consider the materiality of the indicators as well as the need to introduce proportionality in the framework and tailor the requirements to the specificities of the different FMPs.

Question 10: Do you agree with the proposal that FMPs should provide a historical comparison of principal adverse impact disclosures up to ten years? If not, what timespan would you suggest?

PensionsEurope response:

The ability to provide a historical comparison of principal adverse impact disclosures up to ten years will depend on the availability of data on investee companies for such a period. Hence, providing this disclosure at initiation stage for up to ten years does not seem feasible. In addition, ten years seems pretty rich. We would recommend building up a rolling history of up to five years.

Ideally, we should be looking x years ahead rather than x years back. As explained in the answers to the previous questions, we see merits in including voluntary forward-looking indicators for the purpose of principal adverse impacts disclosures under article 4, in order to ensure that the new framework adequately fosters the transition. Notwithstanding this, the framework should not impose a double approach based on forward-looking indicators on top of historical data and only select one of these options.

Question 11: Are there any ways to discourage potential "window dressing" techniques in the principal adverse impact reporting? Should the ESAs consider harmonising the methodology and timing of reporting across the reference period, e.g. on what dates the composition of investments must be taken into account? If not, what alternative would you suggest to curtail window dressing techniques?

PensionsEurope response:

We are not entirely sure we understand the issue. The feedback given during the hearing on these RTS seemed to indicate that FMP should 'weight' their exposure to an investment (and therefore the adverse impacts) with the time that the asset is held during the reference period. Although this may give rise to all sorts of practical challenges, this would avoid window dressing by changing the portfolio around the reference date.

It is also worth pointing out that the aggregation method used implies that for each indicators, the final score is achieved by computing the average of the scores achieved for each investment (average emissions across all equity investments for example), which would not provide relevant information on the invested sectors and may lead to misinterpretation of the results. This approach also creates room for potential window dressing, relocating assets into low emission sectors such as the banking sector or services will allow to improve the final score but may lower the contribution to the green transition since the impacts may be greater for investments in the energy sector.

Question 12: Do you agree with the approach to have mandatory (1) pre-contractual and (2) periodic templates for financial products?

PensionsEurope response:

The scope of article 8 and article 9 products must be clarified. Uncertainty on the scope of article 8 and article 9 should be minimised as it creates legal risk for FMPs.

It is noteworthy the IORP II Directive already requires IORPs to provide ESG information to their members and beneficiaries. Consistency must be ensured between all the ESG disclosure requirements set up by the IORP II Directive and SFDR. Article 30 of the IORP II Directive requires IORPs to publicly release a written statement of investment-policy principles that should describe among other elements, how the investment policy takes environmental, social and governance factors into account. In addition, 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.

The disclosures proposed under article 8 and article 9 should fit with the information needs of IORPs' members and beneficiaries. It is important to stress that information overload in pensions disclosures should be minimised as it may further disenfranchise individuals from their pensions. It is very difficult to get individuals interested in their pensions and most participants do not engage with essential information, such as their expected pension (see answer to question 15).

Furthermore, the application of an investment policy which takes into account ESG elements simply from a governance, a prudential or a risk perspective should not always be seen as promoting environmental or social characteristics or having environmental or social objectives and should therefore not automatically lead to excessive disclosure requirements under article 8 and article 9 of SFDR.

In many countries, members and beneficiaries do not have the possibility to make an investment choice. In these countries, IORPs often have no commercial character and there is no competition between them due to the rules laid down in national social and labour law[4]. In these countries, pension plans are set up by a company or a sector with the following characteristics:

- Employees have no investment choice and do not take any investment decisions
- The board of the IORP has an equal representation of the employees and employers
- All investment decisions are taken by the board of the pension fund
- Following the IORP legislation, the board takes into account ESG considerations in their risk management

It would be inappropriate to impose to IORPs with the above-mentioned characteristics, the same transparency requirements than those applying to big commercial financial entities. The purpose of pre-contractual ESG disclosures is to promote greater transparency for end investors. In these situations where investment decisions are taken by the board, the IORP itself must be considered as the end investor. When members and beneficiaries have no investment choice, the 'greenwashing' objective of the Regulation is irrelevant as ESG is never used as a selling point.

[4] In some coutries, all employees are compulsorily affiliated to the pension plan based on social and labor law.

Question 13: If the ESAs develop such pre-contractual and periodic templates, what elements should the ESAs include and how should they be formatted?

PensionsEurope response:

They should be developed in such a way that they are easily readable for consumers and the information should be limited as e.g. stated in the PRIPP KIDs.

Question 14: If you do not agree with harmonised reporting templates for financial products, please suggest what other approach you would propose that would ensure comparability between products.

Question 15: Do you agree with the balance of information between pre-contractual and website information requirements? Apart from the items listed under Questions 25 and 26, is there anything you would add or subtract from these proposals?

PensionsEurope response:

It is our understanding that pre-contractual information to members can be communicated through the website due to the reference of Article 15 of the Disclosure Regulation, which refers to IORP2 Article 36(2)f, depending on the national implementation of the IORP2 Directive. Nevertheless, the draft RTS would still inhibit pension funds to communicate in an understandable way to members on their website, by having too much and too detailed information there.

Pension funds have a double perspective on disclosures, as they are both providers and users of this information. In case they fall within the scope of Article 8, pension funds will need to provide disclosures to members even when those have no investment choice. **When members have no investment choice, the 'greenwashing' objective of the Regulation is irrelevant as ESG is never used as a selling point**. Moreover, it is also noteworthy members have often 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 disenfranchises 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, **disclosures should be made much simpler, allowing as much as possible the layering of information.**

We feel that the following information items that need to be reported pre-contractually will not be understood by pension funds' members:

- The 'no sustainable investment objective'. The average pension funds' member will not understand the difference between "environmental and social characteristics" and "sustainable investments". In fact, the Regulation hardly defines the difference and the terminology doesn't even resonate with ESG investment practitioners as these terms are not used in the world of finance either. The disclaimer would lead to confusion as to whether the pension fund would have a responsible investment policy or not.
- The difference between direct and indirect holdings
- The action of reducing the investment universe
- The notion of 'derivative'
- The concept of reference benchmark and its role

This does not mean there should be no scrutiny on pension funds' responsible investment policies. This scrutiny should come from internal and external stakeholders such as member representative committees (some bigger funds have committees specifically designated for ESG), unions and NGOs. We recommend using the annual report (or a responsible investment report attached to the annual report) as the location for as much of the disclosure requirements. This will make it easy to find and collect for internal and external stakeholders, while not overburdening individual members that look for a succinct and understandable description of the responsible investment policy in a vocabulary that makes sense to them.

Question 16: Do you think the differences between Article 8 and Article 9 products are sufficiently well captured by the proposed provisions? If not, please suggest how the disclosures could be further distinguished.

PensionsEurope response:

The scope of article 8 and article 9 products must be clarified. Uncertainty on the scope of article 8 and article 9 should be minimised as it creates legal risk for FMPs.

We do not expect pension funds to offer Article 9 products, as the primary objective of a pension fund will always be to deliver good risk-weighted returns for members. They may have specific impact investment mandates as a very small part of their portfolio, but even in this case, pension funds will not invest without a reasonable expected return. Article 19 of the IORP Directive specifies that IORPs must invest their assets in the best long-term interests of members and beneficiaries, which means IORPs cannot make impact investing the first objective of their investment strategy.

As mentioned above, we believe that the disclosures under Article 8 are too detailed and complicated. We have no opinion about Article 9 disclosures, as pension funds will not offer these products.

Question 17: Do the graphical and narrative descriptions of investment proportions capture indirect investments sufficiently?

PensionsEurope response:

We are not sure the split between 'direct holdings' and 'other holdings' is useful and will be understood by pension funds' members. For example, when pension funds' assets are invested by an asset manager, pension funds may not have direct holdings, but instead mandate the pension service provider or asset manager to exercise shareholder voting and engagement on its part. Recital 30 of the draft RTS seem to imply that investing via funds is considered indirect investing. Therefore, a pension fund may not have any 'direct investments', as it holds shares in a collective investment vehicle, even if this vehicle is set up by a wholly-owned investment manager solely for purpose of investments by the pension fund. In any case, an average pension fund member will not understand it, but at least consider investments through investment vehicles as 'direct' investment.

It is also good to note that pension funds do not invest indirectly in companies through e.g. equity swaps.

Question 18: The draft RTS require in Article 15(2) that for Article 8 products graphical representations illustrate the proportion of investments screened against the environmental or social characteristics of the financial product. However, as characteristics can widely vary from product to product do you think using the same graphical representation for very different types of products could be misleading to end-investors? If yes, how should such graphic representation be adapted?

PensionsEurope response:

Given that the concept of 'the promotion of environmental and social characteristics' is undefined, it is difficult to image how the requirement for a graphical representation could work in a consistent way. Pension funds typically apply multiple exclusion screens (e.g. controversial weapons, human rights abuse, tobacco), but may also employ a best-in-class approach in certain problematic sectors. It is impossible to capture all these different elements in a single graphical representation.

Moreover, pension funds have to invest a significant share of the portfolio in highly rated government bonds in order to deliver the promised pension with a high degree of certainty and in certain cases, to hedge interest rate risk. While many pension funds have invested in green government bonds where possible, the amount of green bond principal issued is still very low. Beyond green bonds, the scope to implement environmental or social characteristics is quite limited. This means that **even the most ambitious pension fund will always have a significant part of the portfolio that cannot be used for the attainment of environmental or social characteristics**. However, most pension funds' members will not understand the purpose of different parts of the balance sheet, even if an explanation is provided in the narrative part as this cannot be captured by a single graphical representation.

Because of these reasons we recommend not requiring any graphical representation. It would indeed invite to greenwashing, because a relatively unambitious retail product with a single screen could be made to look better than an ambitious ESG product with underlying investments in government bonds for risk-management purposes. It could also be argued this would push investors to riskier and less diversified products.

Question 19: Do you agree with always disclosing exposure to solid fossil-fuel sectors? Are there other sectors that should be captured in such a way, such as nuclear energy?

Question 20: Do the product disclosure rules take sufficient account of the differences between products, such as multi-option products or portfolio management products?

Question 21: While Article 8 SFDR suggests investee companies should have "good governance practices", Article 2(17) SFDR includes specific details for good governance practices for sustainable investment investee companies including "sound management structures, employee relations, remuneration of staff and tax compliance". Should the requirements in the RTS for good governance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?

PensionsEurope response:

There seems to be some tension between the objective of Article 8 being a 'catch-all' category and setting a certain level of minimum standard for governance. In fact, the governance element may present some kind of loophole, whereby the FMP does use the marketing language of a sustainable financial product, but escapes the requirements of the Disclosure Regulation by not having a policy on governance. It is currently unclear, for example, what should happen if one company in the portfolio has an incident showing failing governance practices. Although pension funds have their investment due diligence processes, with thousands of investee companies in the portfolios in is hard to avoid to have a bad apple from time to time. Specifying in more detail the requirements for 'good governance practices' will make it more likely FMPs will have to disqualify their product as falling within the scope of Article 8.

Question 22: What are your views on the preliminary proposals on "do not significantly harm" principle disclosures in line with the new empowerment under the taxonomy regulation, which can be found in Recital (33), Articles 16(2), 25, 34(3), 35(3), 38 and 45 in the draft RTS?

PensionsEurope response:

We do not expect pension funds to make sustainable investments under Article 9.

Nevertheless, it is unclear how the adverse impact indicators to identify what would cause significant harm, as there is no level or thresholds defined to trigger a "significant harm" event. For example, which CEO/employee pay ratio is so excessive that the investment can no longer be considered a 'sustainable investment'?

Moreover, having to check any investment that aims to have a positive sustainability objective against 32 indicators sets the bar for 'sustainable investments' very high.

Also, most pension funds have less than 500 employees, meaning that pension funds are not required to use the adverse impact indicators. Should they ever want to make a 'sustainable investment', this requirement could act as a threshold, as this pension fund would now need to engage a third-party data provider for information on these 32 indicators.

Question 23: Do you see merit in the ESAs defining widely used ESG investment strategies (such as best-in-class, best-in-universe, exclusions, etc.) and giving FMPs an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such widely used strategies?

For the average pension fund member (and retail client) this type of information would be too difficult to understand. Investment professionals working for pension funds are well aware of the different strategies. There is no added benefit of regulating these definitions for pension fund participants and no clear mandate in Level 1.

Question 24: Do you agree with the approach on the disclosure of financial products' top investments in periodic disclosures as currently set out in Articles 39 and 46 of the draft RTS?

We are not entirely sure how this list would inform a pension fund participant about the sustainable investment policy and hether such a list would fit with the Level 1 mandate. This would entail quite a lot of information and the more pages precontractual information there are, the less likely consumers or pension fund participants are to actually read it.

Question 25: For each of the following four elements, please indicate whether you believe it is better to include the item in the pre-contractual or the website disclosures for financial products? Please explain your reasoning.

a) an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy – in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);

We recommend only including this type of information in the periodic report or annual responsible investment report. In the s case ofmany occupational pension plans, individuals do not have an investment choice and cannot take a decision based on this information. In any case, they will receive the information after they have signed the labour contract.

However, the periodic report often is a focal point for discussions by representative bodies about the pension fund in general and the responsible investment policy in particular. Similarly, these reports are a valuable source of information for external stakeholders who take an interest in the responsible investment policy.

b) a short description of the policy to assess good governance practices of the investee companies – in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);

We recommend only including this type of information in the periodic report or annual responsible investment report. The periodic report often is a focal point for discussions by representative bodies about the pension fund in general and the responsible investment policy in particular. Similarly, these reports are a valuable source of information for external stakeholders who take an interest in the responsible investment policy.

c) a description of the limitations to (1) methodologies and (2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product – in the draft RTS below it is in the website disclosure under Article 34(1)(k) and Article 35(1)(k); and

We recommend only including this type of information in the periodic report or annual responsible investment report. This type of information is very technical and pension fund participants who are proactively looking into the responsible investment policy on the website will likely disengage if they struggle to understand it.

The periodic report often is a focal point for discussions by representative bodies about the pension fund in general and the responsible investment policy in particular. Similarly, these reports are a valuable source of information for external stakeholders who take an interest in the responsible investment policy.

d) a reference to whether data sources are external or internal and in what proportions – not currently reflected in the draft RTS but could complement the pre-contractual disclosures under Article 17.

We recommend only including this type of information in the periodic report or annual responsible investment report. This type of information is very technical and pension fund participants who are proactively looking into the responsible investment policy on the website will likely disengage if they struggle to understand it.

The periodic report often is a focal point for discussions by representative bodies about the pension fund in general and the responsible investment policy in particular. Similarly, these reports are a valuable source of information for external stakeholders who take an interest in the responsible investment policy.

Question 26: Is it better to include a separate section on information on how the use of derivatives meets each of the environmental or social characteristics or sustainable investment objectives promoted by the financial product, as in the below draft RTS under Article 19 and article 28, or would it be better to integrate this section with the graphical and narrative explanation of the investment proportions under Article 15(2) and 24(2)?

Question 27: Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?

We note that the Impact Assessment does not provide any estimates of the costs of the new disclosures. It is for example stated that "The majority of the ESAs' working group believes that the integration of ESG considerations to disclose adverse impacts and actions taken will not be disproportionately high." (p. 75). Are there any plans to substantiate this?

We welcome that the ESAs are seeking to strike a balance between "the cost and complexity of implementation and the usefulness of disclosures for investors." From our perspective, however, this goal is not achieved with the current proposal. For example, the number of indicators for PAI disclosures under article 4 should be boiled down.

The impact assessment states: "The impact of introducing systems and processes to report the principal adverse impacts and the actions taken and planned may be significant, depending on the size of the investments undertaken and the kinds of exposures of the investments (e.g. sectors, countries). In this regard, the working group notes the work done by the European Commission in its impact assessment on the legislative proposals in the sustainable finance action plan. The Commission asked in its public consultation about the additional costs of integrating ESG considerations, to which respondents with one exception chose the lowest range of costs. Furthermore, in the Commission's targeted interviews, six firms provided numbers on the prospective costs of ESG integration. For the small entities, the additional cost ranged from EUR 80 000 to EUR 200 000 per year (for buying external data, doing additional internal research, engagement with companies etc.), i.e. maximum 0.0001 % of AuM (by way of comparison, the total cost for an equity fund is around 2 % per year (based on a study by Deloitte). The highest relative additional cost the Commission re- ceived was 0.0003 % of AuM per year (for a player with EUR 72 billion AuM)."

- The costs reported broadly fall within the scope of what our members have reported to us. If pension funds were to incur these costs themselves directly, the impact on overall costs is much higher than the percentages reported in the impact assessment (0.0001%), at least for smaller and medium-sized funds. For example, a fund with 500 million of AUM incurring an annual cost of EUR 100 000, will see its costs rise with 0,02 percentage points. This relates only to obtaining ESG data and not to the time spent preparing the disclosures. The average annual costs of, for example, a Dutch pension funds stand at 0,65% (including all asset management, administrative and transaction cost), which amounts to a 3% estimated increase of annual costs. Bearing that many IORPs in Europe are smaller than this, this cost increase is not insignificant. At the same time, for the biggest fund in indirectly represented in PensionsEurope's membership (ABP), the EUR 100 000 annual cost would amount to an estimated 0,00002 percentage points. This shows that the RTS currently do not properly incorporate proportionality considerations as required by Level 1.
- Moreover, we note that generally the Impact Assessment does not differentiate between the different types of FMPs. We very much agree that the scope of the SFDR is extremely broad and would expect to see this reflected in the Impact Assessment.

- What type of financial market participant were the "six firms" who provided the numbers? Are their responses relevant for other FMPs as well? We understand that the costs were not calculated based on the Table in Annex I – what are the reasons for using them as an approximation for the expected cost?

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[5].

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.

<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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[5] 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.