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PensionsEurope Newsletter 2023/01

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1. Pension funds manage transition to green economy in stress test

On 13 December 2022, EIOPA published the results of its climate stress test in which 187 IORPs from 18 countries, representing 65% of IORPs' assets in the EEA, participated. The exercise reflected a sudden, disorderly transition to climate neutrality due to delayed policy action, which resulted in a sharp rise in carbon prices.

IORPs were required to use two different methodologies: National Balance Sheet (NBS) respecting national valuation regulations, and Common Balance Sheet (CBS) that is based on market-to-market valuations. The impact of stress test scenario on the European aggregated NBS was -2.5pp and -2.9pp on the CBS. The aggregated post-shock funding ratios in DB schemes stayed high: 117% in CBS and 120.2% in NBS, as shown on EIOPA Figure below.

	IMPACT OF CLIMATE CHANGE SCENARIO		
	PRE-STRESS	POST-STRESS	IMPACT
TOTAL ASSETS - CBS	1.985 trillion	1.730 trillion	-12.9%
FUNDING RATIO* - CBS	119.9%	117.0%	-2.9pp
FUNDING RATIO* - NBS	112.7%	120.2%	-2.5pp

*defined benefit schemes

On 14 December 2022, PensionsEurope published a press release in which we were pleased that the stress test results showed limited impact on the funding ratios of DB schemes with declines of a few percentage points. We also stressed that there are numerous aspects which should not be ignored when investing in carbon intensive industries, and that having a high share of ESG assets under the taxonomy is not synonymous with responsible investment. In addition, we emphasized that cash flow analysis would have been a better equipped methodology to fully capture the economic climate change scenario and it would also have given a better understanding of inflation shocks lasting multiple years and provided more added value for the risk management of IORPs.

The Members of our WG Stress Testing (joint with AEIP) will continue analysing the EIOPA report and based on that work, PensionsEurope will publish a more detailed analysis with some suggestions for the way forward. The next meeting of WG Stress Testing will take place on 17 January 2023.

2. The ETS is ready for take-off

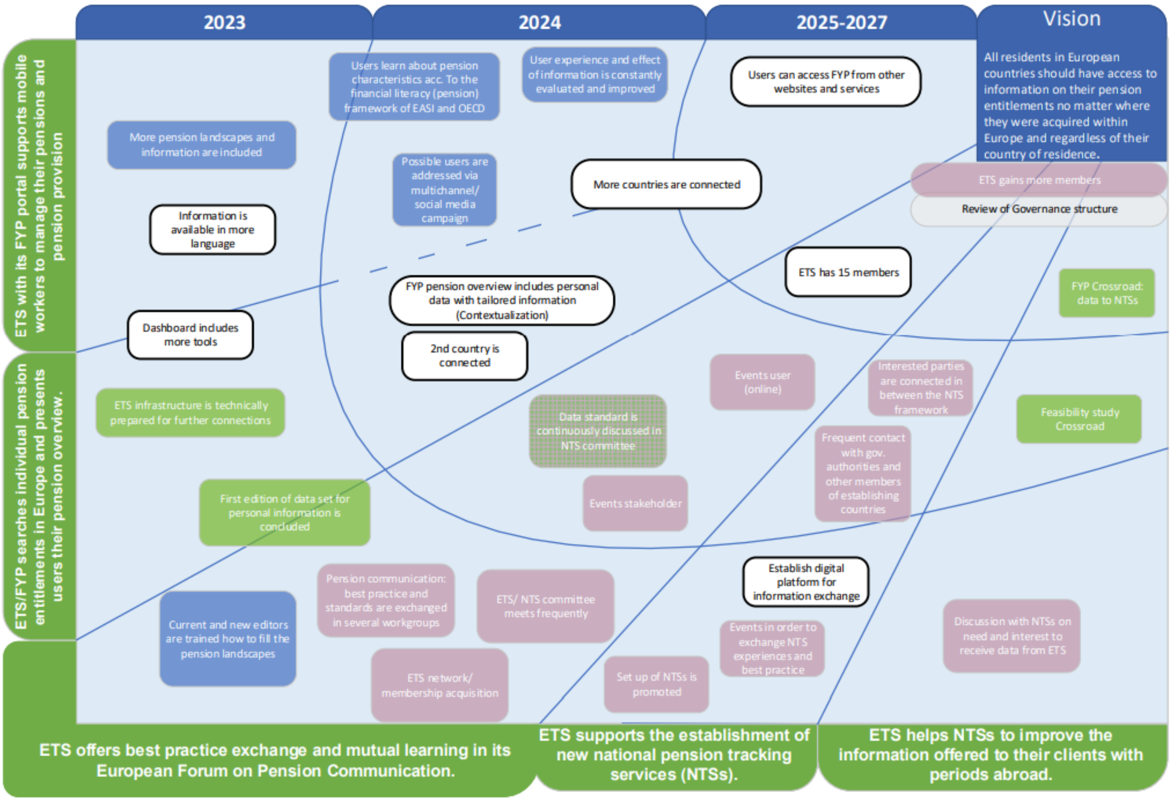
In December 2022, the European Tracking Service (ETS) project consortium[1] published the final Pilot Project Report and announced the establishment of the ETS Association as of 2023. The ETS project builds up on the results of the earlier Track and Trace Your Pension in Europe (TTYPE) initiative (that ran between 2013 and 2016) and served as a feasibility study on the possible design, business plan and policy recommendations for a European pension tracking service. For the past three years, the project was building the pilot under the already existing brand www.FindyourPension.eu (FYP) – a website which has been supporting researchers in dealing with their various pension claims since 2011.

The ETS Report describes the development of the ETS pilot website, the ETS proof of concept level, the ETS organization – including its concept and initial set-up, and the communication strategy and activities aimed at raising awareness and mobilizing relevant stakeholders.

The ETS Association has formally started on 1 January 2023. The basic legal structure is a registered association according to German law. The next step is to start rolling out the pilot. After the first

[1] The ETS-project is a consortium of eight European partners. The goal of the consortium is to create a platform for mobile workers where they can find their pensions from across Europe. Members of the consortium: AEIP (European Association), APG (the Netherlands), Federal Pensions Service (Belgium), Minpension.se (Sweden), PGGM (the Netherlands), Sigedis (Belgium), The Swedish Pensions Agency (Sweden), Versorgungsanstalt des Bundes und der Länder (Germany)

elements of a suitable and feasible data structure have been worked out, the ETS association will implement the concept of a consolidated pension overview in the rollout phase in a step-by-step approach from a functional as well as a technical point of view. The progressive approach is necessary since it first requires the connection of further PTSs besides Belgium (which is already connected) to fill the overview with data. The association will also seek new public funding and tries to attract more National Tracking Services and pension providers to become involved. The implementation and complete realization of the ETS remain complex. Below you can find a planning chart reporting the main goals/milestone the ETS Association intends to achieve in the next five years.



3. EIOPA publishes the 2022 Report on Cross-Border IORPs

In December 2022, EIOPA published the 2022 Report on Cross-Border IORPs.

EIOPA reports that 31 cross-border IORPs were active at the end of 2021, which is a decrease of two cross-border IORPs compared to the number reported at the end of 2020. This further confirms previous conclusions that the number of cross-border IORPs has stopped increasing since 2010 and EIOPA does not expect the number to grow substantially in the near future. Cross-border IORPs provide services to around 93.000 members and beneficiaries and have around EUR 13.0 billion assets under management. EIOPA notes that, while these numbers have risen substantially compared to last year's figures, they constitute only 0.2 percent of IORPs' total number of members and beneficiaries, and 0.4 percent of total assets.

EIOPA reports that the number of host countries grew, now including two new countries: Italy and Sweden. Belgium remains the home Member State with the widest geographical spread of cross-border activities and the vast majority of members and beneficiaries of cross-border IORPs. The Netherlands is the host country with most active cross-border IORPs.

PensionsEurope keeps monitoring the development of cross-border activities of IORPs and discussing internally possible improvements in the context of the next review of the IORP Directive.

4. EC publishes consultation for adoption on EMIR amendments

In December 2022, the EC published the **proposal on the EMIR amendments. The EC published a consultation for adoption. Consultation closes on 6 February 2023**

The main points of the proposal that we identified are the following**:**

- Article 4 introduces an exemption from the clearing obligation where an EU financial counterparty or a non-financial counterparty, subject to the clearing obligation under EMIR, enters into a transaction with a pension scheme arrangement established in a third country which is exempted from the clearing obligation under its national law.
- Market participants, which are subject to the clearing obligation, need to have an active account at a European Clearing House.
- The responses from the consultation of the European Commission highlighted that potential actions from the ECB and national central banks are necessary to secure financial stability.
- Costs need to be at a minimum for end users/customers of European Clearing Houses.
- The products offered and clearing models used need to be expanded by European Clearing Houses.
- 5 years after entry into force of the EMIR review a thorough evaluation needs to take place with a focus on the attractiveness of European Clearing Houses.
- The clearing exemption seems to stay effective for transactions with pension funds which are exempt in their jurisdiction.
- Derivatives which will be in scope in the future shall be subject to the active account requirement at European Clearing Houses.
- Customers/end users need to be informed they can clear at European Clearing Houses.
- It will be easier for European Clearing Houses to extend their product offering and clearing models.
- ESMA will get more power to deal with crisis situations. Central banks can now attend crisis meetings.
- Transparency from clearing members towards their clients regarding (possible) margin calls needs to increase.
- Collateral requirements regarding bank and public guarantees have been relaxed.
- The report required by 2 January 2023 is removed.

5. Deforestation

In December 2022, EU legislators reached an agreement to pass a new law guaranteeing that products sold in the EU are not linked to the destruction or degradation of forests- deforestation regulation.

During the Trialogue negotiation, the EU institutions reached an agreement to leave financial institutions out of the scope of this regulation. Therefore, financial institutions will not be directly obliged to analyse their investments for deforestation risks.

Instead, the European Commission will have to present an assessment two years after the law comes into force, looking at whether existing EU legislation is sufficient to tackle the role of financial institutions, like banks, insurance companies and pension funds, in global deforestation.

Our evaluation is that this is a very positive development, but we need to remain alert for any future similar initiatives by the EP.

6. CSDDD

In December 2022**, the Board of PensionsEurope has considered the third draft of the position paper based on the earlier discussions during the December Board's meeting.**

The new draft aimed to provide our position on the issues we had identified problematic in earlier discussions, which are:

- Scope -Article 2
- Value Chain -Article 3
- Prevention of adverse impacts- Article 7
- Directors' duties and civil liability- Article 22
- Reporting -Article 11
- Plan for transition -Article 15
- Framework for monitoring compliance -Articles 17 to 21

The final draft will be approved in the next few days by the Board, and it will be disseminated to the EP JURI committee members.

7. ESMA launched a consultation on Guidelines on funds' names using ESG or sustainability-related terms

In December 2022**, ESMA launched a consultation on Guidelines on funds' names using ESG or sustainability-related terms and the consultation closes by 20 February 2023.**

In recent years, investors' demands for investment funds that incorporate environmental, social and governance (ESG) factors has been growing sharply and it is expected to continue growing in the future. This increasing demand without the effective application of existing criteria for sustainability such as the EU Taxonomy, has led to concerns in ESMA. Sustainability disclosures may give rise to risks of "greenwashing" and this is particularly relevant if funds are named green or socially sustainable, when sufficient sustainability standards commensurate with that name have not been met.

In the existing UCITS and AIFM Directives, there are provisions for management companies, related to their business activities, which shall be conducted by acting honestly and fairly. In addition, the Regulation on cross border distribution of funds requires the fair, clear and not misleading nature of marketing communications.

On 31 May 2022 ESMA published a supervisory briefing on sustainability risks and disclosures in the area of investment management (ESMA34-45-1427)1 which aimed to enhance supervisory convergence in the area of sustainability-related disclosures and the integration of sustainability risks. The supervisory briefing contained, inter alia, some principles-based guidance for funds' names with ESG and sustainability-related terms.

This consultation paper ("CP") aims to develop Guidelines on funds' names with ESG or sustainability-related terms with more specific guidance compared to the supervisory briefing on the use of ESG or sustainability-related terms in funds' names on which ESMA is seeking the views of external stakeholders, as further explained in the following sections. Contents Section 2 explains the background to our proposals. Sections 3 and 4 give detailed explanations on the content of the proposals and seek stakeholders' input through specific questions.

- Annex I sets out the cost-benefit analysis related to the draft Guidelines.
- Annex II sets out the list of questions contained in this paper.
- Annex III contains the full text of the draft Guidelines.
- Annex IV provides examples of how the threshold mechanism would work

8. EFRAG submits draft ESRS to EC

In December 2022**, the European Financial Reporting Advisory Group (EFRAG) has submitted its draft European Sustainability Reporting Standards (ESRS) to the European Commission (EC).**
You can access them at the following link:
https://www.efrag.org/lab6

The number of drafts has been brought down to twelve, two cross-cutting draft standards, five topical draft standards on environment, four topical draft standards on social aspects, and one topical draft standard on governance:

- Cross-cutting:
  - Draft ESRS 1 *General requirements*
  - Draft ESRS 2 *General disclosures*
- Environmental:
  - Draft ESRS E1 *Climate change*
  - Draft ESRS E2 *Pollution*
  - Draft ESRS E3 *Water and marine resources*
  - Draft ESRS E4 *Biodiversity and ecosystems*
  - Draft ESRS E5 *Resource use and circular economy*
- Social:
  - Draft ESRS S1 *Own workforce*
  - Draft ESRS S2 *Workers in the value chain*
  - Draft ESRS S3 *Affected communities*
  - Draft ESRS S4 *Consumers end users*
- Governance:
  - Draft ESRS G1 *Business conduct*

In developing the final drafts, the EFRAG Sustainability Reporting Board (SRB) acknowledged that comment letters had claimed that EFRAG was asking too much and that the proposed disclosure requirements went far too deep. As a consequence, the final drafts require considerably less information/data points to be disclosed. The SRB also considered whether re-exposure of the final drafts was required but came to the conclusion that the need to re-expose would only apply if there were any fundamental changes that do not address comments received in the public consultation.

As a next step, the EC now has to approve the ESRS drafts or revise them itself before they are to be applied as a delegated act by companies within the scope of the Corporate Sustainability Reporting Directive.

9. PensionsEurope annual conference

The PensionsEurope annual conference will take place **on 20 April 2023 from 9: 00 to 16: 30 CET** at **the Allianz Forum in Berlin** (Pariser Platz 6, 10117 Berlin, Germany). This conference will be available in hybrid format. Please find some photos of the venue below:

The venue is on Pariser Platz, next to the Brandenburger Gate in Berlin.

Photo of the lower floor of the Allianz Forum where the conference will take place.

The theme of this year's conference is **''How to protect pensions in the time of turmoil''**. The post Covid shifts - high inflation, high interest rates and economic uncertainty combined with increasing demographic challenges, are putting large pressure on pensions. Pension funds are key to finding solutions to these fundamental changes, turn them into opportunity, and guarantee fair and sustainable retirement provisions to all.

The PensionsEurope annual conference will focus on the current macroeconomic situation of Europe, the challenges faced by the pension funds and the solutions that can be envisaged by policymakers and institutional investors to protect people.

More information on the programme will soon be available and invitations to the annual conference will be sent later this week.