



International Actuarial Association  
Association Actuarielle Internationale



# Pension Fund ESG Risk Disclosures

Developing Global Practice

Paul Meins, Philip Shier and Tim Furlan,  
introduced by Micheline Dionne

21 January 2021



## Disclaimer

Our remarks today are our personal opinions, they are not, and should not be construed as, official positions of the IAA or any of its committees.

## Questions

The presenters will address questions at the end of this webinar. Please use the Q&A button on your screen at any time.

# About the speakers



**Micheline Dionne**

Micheline is Chair of the IAA Resource and Environment Task Force



**Paul Meins**

Paul is an independent consultant, and a Fellow of the Institute and Faculty of Actuaries. He was lead author of “Decarbonization: a Briefing for Actuaries” published by the IAA in November 2018.



**Philip Shier**

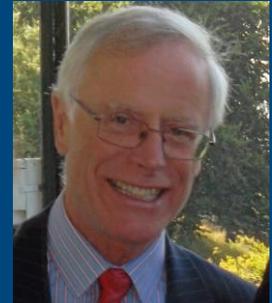
Philip is Head of the Actuarial Practice, and former President of the Society of Actuaries in Ireland, and a former Chair of the Actuarial Association of Europe.



**Tim Furlan**

Tim is a Director with Russell Investments, Vice Chair of the IAA Pensions & Employee Benefits Committee and a Fellow of the Institute of Actuaries of Australia.

The first speaker is Paul Meins, who will summarise the background to the development of ESG disclosures and the results of a global survey





# The relevance of ESG risks for pension funds

- Investment performance
- Reputational risks for trustees and sponsors
- Increased interest from members
- Regulators upping their game
- Courts becoming involved

# Just ask British Petroleum

Stock fell by 51% just 40 days after oil spill

## 1.Environmental disaster

2. "...BP has already spent \$28bn on response and clean-up and to pay economic claims to oil spill victims."

1 April 2015<sup>1</sup>

## 1.Inadequate social practices

2. "BP has one of the worst worker safety records among large industrial companies operating in the United States."

3 August 2016<sup>2</sup>

## 1.Poor governance

2. "Lapses seem to have been everywhere; e.g., in preparedness, alert systems, communication, and worst case scenario plans."

1 June 2010<sup>3</sup>



1. <https://bbr.org/2018/06/bps-tons-hayward-and-the-failu.html>

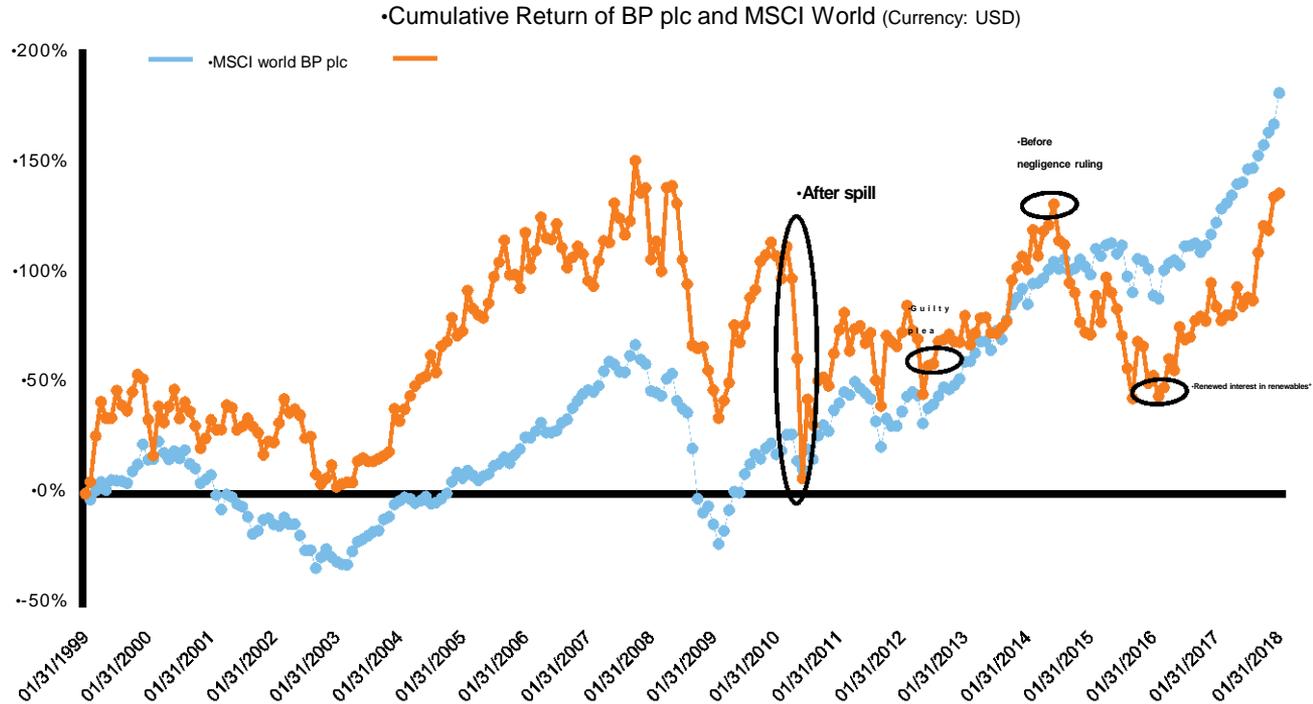
2. <https://www.corp-research.org/BP>

3. <https://www.npr.org/2015/04/20/400374744/5-years-after-bp-oil-spill-effects-finger-and-recovery-is-slow>

Image Source: Getty Images

# BP in deep water

## Case study: Economic consequences



\*<https://www.theguardian.com/business/2016/may/21/oil-majors-investments-renewable-energy-solar-wind>



Superannuation giant HESTA has warned its support for reappointing Westpac directors will be influenced by whether the board can lay out a clear plan for improving the embattled bank's governance and culture.

As Westpac reels from a money laundering crisis that has already forced the resignations of chairman [Lindsay Maxsted](#) and chief executive [Brian Hartzler](#), the \$53 billion fund has written to Mr Maxsted seeking answers on further steps the bank will take to fix governance and cultural problems.

## 10 Companies That Still Use Child Labour



On 24 April 2013, the collapse of the Rana Plaza building in Dhaka, Bangladesh, which housed five garment factories, killed at least 1,132 people and injured more than 2,500. Only five months earlier, at least 112 workers had lost their lives in another tragic accident, trapped inside the burning Tazreen Fashions factory on the outskirts of Dhaka.

These disasters, among the worst industrial accidents on record, awoke the world to the poor labour conditions faced by workers in the ready-made garment sector in Bangladesh.



## ESG Risks include

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>
Energy consumption	Human rights	Quality of management
Pollution	Child and forced labour	Board independence
Climate change	Community engagement	Conflicts of interest
Waste production	Health and safety	Executive compensation
Natural resource preservation	Stakeholder relations	Transparency & disclosure
Animal welfare	Employee relations	Shareholder rights



## Countries included in global survey

	<b>US \$'billion*</b>		<b>US \$'billion*</b>
Australia	2,077	Netherlands	1,690
Canada	1,924	Poland	48
France	155	South Africa	231
Germany	502	Spain	43
Ireland	184	Switzerland	1,047
Italy	210	UK	3,451
Japan	1,400	USA	29,196

\*Total pension fund assets generally taken from The Thinking Ahead Institute's Global Pension Assets Study 2020



## Scope of survey in each country

- Approximate total pension funds split by investment type and DB/DC
- Governance including role of employer, trustee and members
- Main legislation impacting investment and ESG, including extent of public disclosure and TCFD developments
- Approach to stewardship
- Litigation involving pension funds



## Highlights from survey – ESG legislation

- Australia, parts of Canada, Germany, Italy, Spain and the UK require some ESG disclosure
- A SIP “Statement of Investment Principles” starting to be introduced showing the extent to which ESG principles incorporated into investment processes
- In Europe, IORP II and SRD II directives being rolled out
- Implementation of FSB TCFD recommendations on the way

Philip Shier is now going to summarise the development of ESG-related requirements for pension funds in Europe





## The “IORP II” Directive

- DIRECTIVE (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORPs)
- It amended and extended significantly IORP I which came into effect in 2003
- IORP II came into effect on 19 January 2017 and should have been transposed into national law (of the then 28 Member States of the EU) by 19 January 2019. Not all met this deadline; only Ireland has not yet done so
- The main focus of IORP II is on improved governance and enhanced supervision
- There are references to ESG in 6 Articles of the Directive, and in the Recital which says that the requirement than an IORP disclose its ESG policy can be satisfied by stating that it doesn't consider ESG in its investment strategy



## What does IORP II require of pension funds in relation to ESG?

- Governance: must include consideration of ESG factors in investment decisions
- Investment strategy: “prudent person principle” may include consideration of ESG issues; must produce a Statement of Investment-Policy Principles (SIP) which sets out how the investment policy takes ESG factors into account
- Risk Management: must have a risk management system in place covering (inter alia) ESG risks relating to investments; own risk assessment (ORA) must include “risks related to climate change, use of resources and the ESG risks and risks related to the depreciation of assets due to regulatory change”



## What does IORP II require in relation to ESG disclosures?

- Must make the scheme's audited report and accounts publicly available and ensure it includes disclosure of "significant investment holdings"
- Must make the SIP publicly available
- Must inform prospective members and members whether and if so how ESG factors are considered in the investment approach
- Provide accounts, SIP and ORA (and other documents) to supervisor on request



## What is the EU directive SRD II?

- DIRECTIVE (EU) 2017/828 as regards the encouragement of long-term shareholder engagement (the second Shareholders' Rights Directive)
- Applies to specified institutional investors (including IORPs) and addresses a range of issues designed to improve shareholder engagement
- *“Greater involvement of shareholders in corporate governance is one of the levers that can help improve the financial and non-financial performance of companies, including as regards ESG factors.”*





## What does SRD II mean for pension funds?

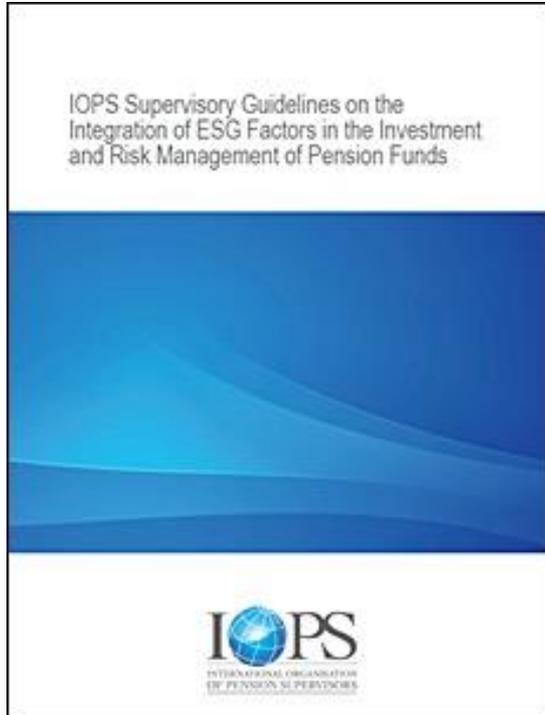
- Must publicly disclose an engagement policy which includes details on how shareholder engagement is integrated into investment strategy, how conflicts of interest are managed and how dialogue is conducted with investee companies
- Must publicly disclose annually how its engagement policy has been implemented, including providing information on voting behaviour and significant votes taken and any use of proxy advisers
- Must publicly disclose how its equity investment strategy contributes to long-term performance and the main features of arrangements with investment managers



## And more EU legislation in the pipeline

- SFDR Sustainable Finance Disclosure Regulation (EU Regulation 2019/2088) will impose major new disclosure requirements on financial market participants including pension funds
- EU Taxonomy being implemented to define sustainable investment and facilitate the European Green Deal

# Becoming a global regulatory issue



- Guidelines to supervisors published by International Organisation of Pensions Supervisors (IOPS) in 2019
- Clarifying that integration of ESG factors is in line with fiduciary duties;
- Requiring that investment policy integrates ESG factors;
- Reporting to supervisory authorities on ESG integration;
- Disclosing to members regular reports on engagement with companies invested in;
- Encouraging scenario testing of investment strategy.



## Stewardship of Investments

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

UK Stewardship Code 2020 (voluntary)

# Stewardship of Corporations



## Our vision

Our vision is to grow our business, while decoupling our environmental footprint from our growth and increasing our positive social impact

## SIEMENS

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It should also serve society – with technologies and products, with its employment practices, with everything that it does.

This idea is still alive today. Serving society while doing successful and sustainable business is at the heart of Siemens' strategy. It's our company's ultimate purpose.\*

## JPMORGAN CHASE & CO.

We are combining our business and policy expertise, sustainable business practices, data, capital and global presence to advance solutions that create inclusive economic growth.

The Walmart logo, consisting of the word 'Walmart' in white on a blue rectangular background, followed by a yellow six-pointed starburst icon.

**Walmart** aims to provide safe, affordable food and other products to people around the world. Doing so in a way that enhances economic opportunity, environmental and social sustainability, and local communities creates value for our business and for society.

Tim Furlan will now look at how pension funds tackle ESG, and review developments in litigation involving pension funds.



# ESG in practice



- Integrating ESG

Into investment strategy and risk management, so maximising long term returns

- Divestment or engagement?

May do both if large enough, passive funds have no choice

- Climate change

Low carbon portfolios

- Social impact

Adequate return - consider fiduciary duty, members views?  
Take account of UN Sustainable Development Goals?



## What can smaller pension funds do?

- ensure they select investment managers who are able to accept the fund's ESG approach, including the fund retaining voting responsibility;
- if using unitised pooled funds, ensure that the prospectus ESG approach is consistent with the pension fund's;
- in regard to engagement with companies on ESG issues, work through associations, as well as investment managers;
- use a website to provide ESG information to members and other stakeholders



# Global trends in climate change litigation

- Climate change litigation continues to expand
- Cases have been brought in 28 countries, but most in the United States
- Most defendants are governments but lawsuits increasingly targeting high GHG emitting companies
- An Australian pension fund (REST) recently settled a case and UK funds threatened
- Climate change-related claims are being pursued by investors (including pension funds), activist shareholders, cities and states

**Based on:** Setzer J and Byrnes R (2019) Global trends in climate change litigation: 2019 snapshot. London: Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, London School of Economics and Political Science.

## Pension Fund ESG Disclosure: “Best Practice” The Magnificent Seven?





<b>Country</b>	<b>Pension scheme</b>	<b>Total funds USD billion</b>	<b>Collaborations</b>
Australia	First State Super	52	ACSI, CDP, IGCC, PRI
Canada	Ontario Teachers	147	Climate Action 100+, GRESB, SASB, TCFD
Denmark	ATP	130	Climate Action 100+, PRI, IIGCC, CDP, GRESB, ICGN
Netherlands	ABP	508	Climate Action 100+, GRI, AODP, VBDO
Switzerland	Canton of Zurich Pension Fund BVK	36	Climate Action 100+, PRI, SVVK-ASIR
UK	RPMI Railpen	39	Climate Action 100+, PRI, ICGN, IIGCC, GIC, UK Stewardship Code
USA	New York State Common Retirement Fund	210	Ceres, CDP, Climate Action 100+



## Concluding remarks

Pension funds globally control funds of more than US \$44 trillion, as part owners of companies which produce the world's goods and services. As owners, acting on behalf of their members, they need to ensure that company management undertake their activities on a profitable but sustainable basis, not involving illegal activities, not polluting the planet and respecting the interests of employees, customers and society at large.

Pension funds stewardship is increasingly subject to scrutiny by a variety of stakeholders and the general public. Actuaries should ensure they fully appreciate pension fund ESG risks, and how and what needs to be disclosed, so they can provide timely, constructive and resilient advice to clients.

# Questions?



Paul Meins



Philip Shier



Tim Furlan

# Thank you



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