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DISCUSSION PAPER

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SUBJECT: European commission Action plan on financing sustainable growth

Introduction

We welcome and embrace the Action Plan of the European Commission on Financing Sustainable Growth. At the same time, our responsibility is to realise return on investment for good pensions for our participants. In the following paper, we provide our vision on how to combine these two ambitions.

Key messages

1. **Flexibility and an alignment with worldwide practices is needed for a European classification system**
   A European classification system should be based on existing worldwide practices. A classification is the cornerstone for sustainable finance. It should focus on products and services and leave enough flexibility for institutional investors to enable selection of and investments in ESG based products and projects. The purpose of a taxonomy should be guiding and not lead to a pressure or obligation for specific investments or divestments. Furthermore a link with the SDG's of the UN is desirable including the dimension of governance and social aspects.

2. **Deepening the market for green bonds could lead to more investment opportunities**
   We are in favour of creating standards and labels for green financial products as this potentially leads to more investment opportunities.

3. **A masterplan for sustainable projects is necessary**
   Dutch pension funds play an increasing role in sustainable finance. They are in favour of further developing the possibilities to invest in sustainable financial products and projects based on good information and transparency. Furthermore standardisation of national PPP contracts is desirable.

4. **Pension Funds include sustainability factors in their investment decisions**
   Participants of Dutch pension funds ask more and more for sustainable investment of their pensions. Therefore, pension funds include more and more sustainability aspects in their investment decisions. We are in favor on transparency about the integration of sustainability factors in investment processes. However, the way of integration should be left to the discretion of the investor.

5. **Benchmarking should be transparent and be based on a trustful methodology**
   Dutch pension funds are both active and passive investors. Transparent sustainability benchmarks based on a trustful methodology would help them

to do their investments. In particular smaller passive investors would benefit from these measures.

6. **A flexible and integrated approach to sustainability, market and credit research is necessary**
   New rules on how to integrate sustainability including ratings and market research have to be flexible and take into account the need for a diverse investment portfolio. The ultimate judgement of and responsibility for investment opportunities has to be with the investor. The use of sustainable benchmarks should therefore not become compulsory.

7. **Ensure the diversity of our investment activities**
   For Dutch pension funds it is important that the European actions lead to supporting the sustainable finance ambitions of their boards that are ultimately responsible for a good pension outcome for their participants.

8. **Capacity building and share of best practices needed first**
   National prudential requirements for IORPs should first and foremost ensure the financial soundness of the activities of IORPs. Sustainability aspects alone do not determine the risk-profile of an investment. We favor pricing of externalities rather than stimulating sustainability via capital requirements.

9. **Worldwide accounting standards help to make better investments**
   In principle, we are in favour of fostering sustainability within the framework of disclosure and accounting rules. They help to make a better selection, risk management and provide for better information. It is part of Directors' duties to ensure that material ESG risks are integrated into audited accounts and corporate disclosure.

10. **Long term investments are part of the DNA of Dutch pension funds**
    Pension funds do have a long term vision on investments. They are a necessary tool to achieve good investment results for our participants. At the same time short-termism should not be confused with short term investments. The latter are an important part of our investment portfolio and essential for prudent portfolio management. Short term investments can play essential roles within a long term strategy.

11. **Long term commitment by governments and policies is a prerequisite for higher participation of institutional investors in the financing of sustainability goals**.
    Institutional investors consider sudden changes and inconsistencies in policies and legislation as one of the major risks associated with sustainable finance. (Example: CO_2 emission rights, change in tax advantages, etc.).

Response to the Actions

Based on our key message, hereunder we further develop our responses to the proposed actions by the European Commission.

Action 1: Establishing an EU classification system for sustainable activities

Our response: Flexibility and an alignment with worldwide practices is needed for a European classification system
We support the development of a taxonomy for sustainable activities as it is the cornerstone for sustainable finance. In principle, we also are in favour of embedding such a taxonomy into EU law. It helps to make investments in (environmental) sustainability more accessible and align criteria. Such an EU-wide classification system contributes in addition to better comparability and will be helpful for all market participants. However, in that case sufficient flexibility is necessary and should be regularly built in. The taxonomy should be adjusted to new developments. Furthermore a link with the SDG's of the UN is desirable including the dimension of governance and social aspects. The focus of the taxonomy should be on products and services. At the same time it should be ensured that sustainable products and services should be produced in a responsible and sustainable way. The purpose of a taxonomy should be guiding and not lead to a pressure or obligation for specific investments or divestments.

Action 2: Creating standards and labels for green financial products

Our response: Deepening the market for green bonds could lead to more investment opportunities
We consider a report on an EU green bond standard and the development of such a standard as a positive step. We subscribe to the deepening of the green bond market, as it would lead to more possibilities to invest in them. At the same time, we encourage better disclosures on the impact of green bonds and the use of proceeds. What is more, any standard for green bonds should be broadly accepted, principle based and build on the today's voluntary standard for green bonds and have clear criteria.

In addition, we are in favor of the European Commission to specify the content of the prospectus of green bond issuances. This could facilitate our decision-making processes in our capacity as potential investors in such bonds.

We agree with the Action Plan that the European Commission should first decide on a taxonomy and then develop a green label. In principle, a EU Ecolabel framework for certain financial products is useful, if it is clear how such a label would be applied and if it has at least the same quality as existing national labels.

Finally we would also welcome standards for social and sustainable bonds.

Action 3: Fostering investment in sustainable projects

Our response: A masterplan for sustainable projects is necessary
We subscribe to fostering investment in sustainable projects and to the efforts of reinforcing advisory capacities. We understand that Masterplans for sustainable projects are necessary and are realized at the national level in

order to create pipeline visibility. Within this framework good advice and technical support are essential. Any activity in this respect should lead to investment projects with a clear risk/return profile. This could increase our possibilities to invest in infrastructure projects for example. What is more, standardisation of national PPP contracts is desirable. The Dutch government is already making use of such contracts.

Action 4: Incorporating sustainability when providing financial advice

Our response: Pension Funds include sustainability factors in their investment decisions
Our participants ask more and more for sustainable investment of their pensions. Therefore, pension funds include more and more sustainability aspects in their investment decisions. We are in favor on transparency about the integration of sustainability factors in investment processes, However, the way of integration should be left to the discretion of the investor.

Action 5: Developing sustainability benchmarks

Our Response: Benchmarking should be transparent and be based on a trustful methodology
The investment approach of Dutch pension funds ranges from active to passive strategies, depending on the size of the fund and the preferences of its beneficiaries. For both active and passive investors, we support transparent benchmarking based on a trustful methodology. This would help us to do our investments. However, the use of sustainable benchmarks should not become compulsory. Investment flexibility and judgement by the investor are important key elements for a good pension outcome and prudent risk management in the long run.

In order the maximize the use of sustainability benchmarks, passive and active investors find that transparency and a clear methodology are important. In order to achieve this, the quality and availability of (comparable) data is very important.

More information on sustainability labels is necessary in order to be able to provide for a better comparability of such labels.

We wonder what the consequences of harmonising benchmarks will be? This should not lead to an investment or divestment obligation for pension funds. For example boards of trustees of pension funds need to be able to align with their participants preferences in matters such as exclusion themes. However, different pension funds of participants differ from each other. These differences in preferences are just one of many reasons why in practice many tailored approaches exist should remain to exist.

- ***Action 6: Better integrating sustainability in ratings and market research***

  Our response: An integrated approach to sustainability, market and credit research necessary
  We agree with actions proposed by the European Commission in this context. We subscribe to an integrated approach to sustainability, market and credit research. This could help pension funds and their dedicated service providers to better select investment products. However, they should not lead to the creation of an EU Credit Rating Agency. At the same time it is important to guarantee that existing sustainability research providers can continue to do their business. In the end, investors make their own judgement and risk assessment.

  Action 7: Clarifying institutional investors' and asset managers' duties

  Our response: Ensure the diversity of our investment activities
  Going forward, we see the integration of sustainability in investment policy and process as a natural development in the portfolios of Dutch Pension Funds. Currently first steps have already been taken by a great number of pension funds. However, investors should keep their freedom to decide how to integrate sustainability in their investment policy and - strategies and how to provide for transparency about this. As mentioned earlier, pension funds' decisions depend on the preferences of their members. In the Netherlands, ESG criteria and risk management are usually anchored in the investment strategy and process of pension funds and their dedicated service providers. Dutch pension funds decide on their investment beliefs taking into account the interests in close coordination with their members. In this respect we plead for an open norm to allow our members to decide on the sustainability aspects they consider to be important. This would also allow the keep the diversity of the investment activities of pension funds and their dedicated service providers.

  Action 8: Incorporating sustainability in prudential requirements

  Our Response: Capacity building and share of best practices needed first
  Incorporating ESG factors within the prudential regulation is a field that is not yet deeply explored. The objective of prudential regulation is stability and sustainable prosperity. These two are equally important. Sustainability aspects alone do not determine the risk-return profile of an investment. We favor pricing of externalities rather than stimulating sustainability via capital requirements. What is more, the IORP II Directive is today the only financial market directive that includes considering of and reporting on ESG factors. This directive is currently in the process of being implemented. We therefore call for building up capacity at EIOPA and sharing best practices before changing existing legislation. The role of the European supervisory authorities needs to be clarified in line with these new requirements.

  The wording of the action plan on calibration of risks is according to us well balanced.

- ***Action 9: Strengthening sustainability disclosure and accounting rule-making***

Our response: Worldwide accounting standards help to make better investments
In principle, we endorse strengthening sustainability of disclosure and accounting rule-making. Accounting rules provide for accurate and timely information. They help to make a better selection, risk management and provide for better information. It is part of the Directors' duties to ensure that material ESG risks are integrated into audited accounts and corporate disclosure. What is more important for pension funds is, that additional standards should not lead to more administrative costs. Furthermore accounting rules should preserve their current character: It is not clear to us whether the accounting rule making is relating to companies or institutional investors such as pension funds.
We urge to avoid piling up legislation with respect to sustainability. The IORP II Directive already includes ESG factors for pension funds with regard to their investment beliefs. The same goes for the EU Directive on non-financial information obliging pension funds above € 10 bln. to report over investment policy, risk management and KPI's on ESG factors.

Any changes of accounting rules shall be aligned with the work of the Taskforce for Climate-related Financial Disclosures (TFCD)and Non-Financial Information (NFI).

Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets

Our response: Long term investments are part of the DNA of Dutch pension funds
Fostering sustainable corporate governance and attenuating short-termism can be a game changer for the real economy. At the same time, we prefer the HLEG recommendation on this topic.

We are in favour of promoting a long term vision and do away with short-termism. However, short termism should not be confused with short term investments or short term risk management. Short term investments and short term risk management have their role to play within a long term strategy. Pension funds need short term investments to have a balanced risk profile that enables them to provide the necessary short term liquidity for e.g. paying out pensions and for hedging interest rates and currency risks. These short term investments are therefore a necessary tool of pension funds' investment policy. Long termism should become part of the fiduciary duty. In this respect we call for building up capacity at the supervisory authorities and share best practices with regard to including climate and environmental risks in stress testing.

We are ready to engage with other stakeholders to support the EU action plan on sustainable finance and make it a success.