

8 March 2019

IOPS Secretariat
2 rue André-Pascal
75775 Paris Cedex 16
France

Delivered by email to: dariusz.stanko@oecd.org

Dear Mister Stanko,

Re: Public Consultation on the Supervisory Guidelines on the integration of ESG factors in the investment and risk management of pension funds

Thank you for the opportunity to comment on the Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds (“the Guidelines”).

The Shareholder Association for Research and Education (SHARE) is a Canadian leader in responsible investment services, research and education for institutional investors. Since 2000, SHARE has carried out this mandate by providing active ownership services, including proxy voting and engagement, education, policy advocacy, and practical research on issues related to responsible investment and the promotion of a sustainable, inclusive and productive economy. SHARE also provides education services to build the capacity of pension board members to integrate ESG considerations in their investments. Our clients include pension funds, foundations, endowments, faith-based organizations and asset managers across Canada with more than CAD22 billion in assets under management.

SHARE believes that the IOPS Guidelines on ESG factors is timely and important. While regulatory guidance that recognises the materiality of ESG factors is expanding in distinct countries and jurisdictions, barriers continue to impede governing boards from taking action in many countries including Canada. Those barriers include agency, short-termism, cultural and political issues. We believe that governing boards of institutional investors need more comfort before they will meaningfully consider ESG issues in board level decision making. The IOPS Guidelines are an important step in delivering that guidance across more jurisdictions such as Canada.

ESG factors as macro and micro risks

Pension funds generally have broadly diversified portfolios in terms of asset class, sector and geographic exposure. They tend to be exposed to systemic risks which cannot be easily diversified away. Given that pension fund governing boards tend to deliberate and make decisions about broader portfolio considerations (e.g. asset allocation), there is value in delineating how pension funds consider both a) macro-level ESG factors and b) micro-level ESG factors. Macro-level ESG factors comprise systemic risks that are not easily diversifiable. Climate

change or income inequality are examples of such factors. Micro-level ESG factors relate to the ESG profile of specific companies.

This delineation could be made in Section I of the Guidelines.

Citing and socialising key OECD mechanisms

SHARE believes that IOPS has an opportunity to raise further awareness and impart upon investors their responsibilities under key mechanisms such as the OECD Guidelines for Multinational Enterprises (MNEs). The OECD has clarified that institutional investors such as pension funds have a responsibility to carry out due diligence – on ESG factors and/or responsible business conduct practices – in their investment portfolios. Under the OECD Guidelines for MNEs, investors, including minority shareholders (which would be the case for most pension funds), “investors are expected to consider Responsible Business Conduct risks throughout their investment process and to use their so-called “leverage” with companies they invest in to influence those investee companies to prevent or mitigate adverse impacts”. The notion of investor responsibilities is seldom cited in guidance documents issued by pension supervisory authorities, but it should be.

A reference to the OECD Guidelines for MNEs could be placed in the annotation to Section II.

Clarifying language on social risks

SHARE notes that the Guidelines provide a sensible, albeit non-exhaustive, description of environmental and governance risks. We think that social risks could be better fleshed out to align with internationally-recognised norms and frameworks, such as the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights:

- J Paragraph 2: “fair treatment of the labour force” should be changed to “fair labour relations”.
- J Paragraph 11: The description of social issues, which reads as “the rights, well-being and interest of people and communities” should be expanded to include “workers, other people and communities”. The definition of “people” is too open and leaves room for the exclusion of worker rights.
- J Paragraph 16: This paragraph should list each of the four ILO Fundamental Principles and Rights at Work. There should be an explicit mention of “discrimination in respect of employment and occupation” and “violations to freedom of association and the effective recognition of the right to collective bargaining” as social risks.
- J Paragraph 20: the text mentions that “ESG investing may...help address social needs (such as communication with workers and stakeholders)”. A more balanced description of labour relations could say “ESG investing may...help address social needs (such as dialogue with workers and their representatives).

Boundaries between financial and non-financial ESG factors

The current text of the Guidelines struggles to define boundaries between financial and non-financial, material and non-material, and short-term and long-term ESG factors. For instance, after stating that “ESG factors will be considered as a subset of financial factors”, the Guidelines move beyond this in paragraph 1.3 in Section I stating that when pension funds “offer investment options to members that partly take into account non-financial factors, such options may possibly result in sacrificing some return as compared to options that are defined purely on financial grounds”. Furthermore, annotation 1.2 conflates the distinct concepts of the “integration of ESG factors” and “ESG investing”. The former term could include using stewardship tools such as proxy voting or shareholder engagement without changing a defined investment portfolio; the latter term implies allocating capital towards investments that have a specific ESG profile. These approaches may have very different implications for returns and should not be conflated.

SHARE thinks that guidance to consider all ESG factors that *are relevant to fulfilling trustee obligations and duties to beneficiaries* would provide a useful signal to pension funds. In Canada, such clarification could encourage pension regulators to issue guidance which explicitly ties ESG factors to the delivery of the pension promise. Since trustees are instructed to consider all issues that are relevant to their objective, this would help elevate appropriate consideration of ESG factors at the governing board level.

If you have any questions or would like to discuss these proposals further, please feel free to contact me at any time. I can be reached at 416-306-6453 or by email at kthomas@share.ca.

Sincerely,



Kevin Thomas
Executive Director
Shareholder Association for Research & Education

c.c.: Canadian Association of Pension Supervisory Authorities