Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

March 15, 2019

Mr. Dariusz Stanko
Secretariat
International Organization of Pension Supervisors
Dariusz.stanko@oecd.org

Dear Mr. Stanko,

Re: Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds

We are writing in response to the International Organization of Pension Supervisors' (IOPS) request for comments on the development of guidance related to the consideration of environmental, social and governance (ESG) factors by pension funds.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $2 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

Fiduciary Duty

PIAC members operate within a fiduciary framework that imposes a duty of loyalty and a duty of prudence on plan administrators. Pension plan trustees are required to act in good faith and in the best interests of plan members and beneficiaries while preserving the intergenerational fairness of the plan(s). PIAC believes, because of the potential for ESG factors to have financial impacts on plan investments now and well into the future, it is within the scope of our members' role as fiduciaries, as currently defined, to consider these in their investment processes.

Further, we have observed a growing consensus to this point, as reflected in:

- The conclusions drawn the 2005 and 2009 Freshfields reports[1]
- The PRI's 2015 report on Fiduciary Duty in the 21st Century[i]
- Broad endorsement of reporting standards such as the Global Reporting Initiative, the Task Force for Climate-related Financial Disclosures and the Sustainable Accounting Standards Board (SASB).
- The proliferation of Stewardship Codes around the world that guide investors on responsible investing principles and activities.

As such, we support guidance from IOPS affirming that the consideration of ESG factors in the investment process is consistent within a fiduciary framework and which encourages pension plans to both consider ESG factors in the investment process and to disclose how ESG is integrated into the management of pension assets.

As a general comment, PIAC believes such guidance would be helpful and valuable to pension plan administrators, but would not support guidance if it were overly prescriptive. Therefore, while we recognize the stated intent of using the word "should" as encouragement to voluntarily adopt and implement guidelines, we suggest revising this to "may" provides a more balanced approach.

The following are more specific comments and suggested wording changes for the proposed guidelines.

Section 1. ESG factors in the investment and risk management process

We suggest the first guideline be amended to read:

1.1. Supervisory authorities should require that a pension fund governing body consider relevant and material environmental, social and governance (ESG) factors, along with any other ~~substantial~~ ~~financial~~ factors considered to be relevant and material, that may contribute to achieving the long-term retirement objectives of pension fund members and their beneficiaries. In particular, such wider considerations ~~should~~ may be taken into account in the pension fund's investment and risk management process.

Our reasons for these suggestions is that we believe the existing wording implies all ESG factors are "substantial financial factors", which is not the case. Our use of the word 'relevant' is meant to convey the idea that what is relevant for one investment strategy (e.g., long term hold fundamental equity strategy, private equity, etc.) may not be relevant for another investment strategy (e.g., a purely quantitative short-term equity strategy). Further, these suggested amendments remove the potential interpretation that investment managers must consider *all* financial factors, which could preclude them from adopting certain ESG related strategies including positive or negative screening.

[1] www.unepfi.org/fileadmin/documents/fiduciaryII.pdf

PIAC considers Guideline 1.4 to be potentially problematic and prefers it be removed. However, if it must stay we believe risk and return must be relevant to any consideration of relevant and material ESG factors.

Section II. Integration of ESG factors in the investment and risk management process

For Guideline 1.5, we have similar comments to those articulated above regarding Guideline 1.1.

Section III. Disclosure of ESG factors in the investment and risk management process

Guideline 1.8 should also reference "relevant and material ESG factors".

Thank you for the opportunity to provide input into the proposed guidance. Please note we are providing a copy of this submission to the Canadian Association of Pension Supervisory Authorities. CAPSA is a member of IOPS.

Yours sincerely,

Deanne Allen
Chair

cc. Angela Mazerolle, Chair, CAPSA

---

[i] https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-canada-roadmap/260.article