PRI Principles for Responsible Investment

POLICY BRIEFING

EU REGULATION ON A PAN-EUROPEAN PERSONAL PENSION PRODUCT (2019)

AT A GLANCE

The new Pan-European Personal Pension Product (PEPP) regulation sets out requirements for a new category of pension product. PEPP providers must take into account risks relating to ESG factors, and the potential long-term impact of investment decisions on ESG factors, as part of their requirement to invest in line with the Prudent Person Principle. PEPP providers must also disclose details of how the investment policy takes ESG factors into account, as well as ESG performance information, where available.

DEVELOPMENT AND TIMELINE

The PEPP is a voluntary retirement scheme. It will complement existing public and occupational pension systems and national private pension schemes. The PEPP is intended to offer consumers more choice, the benefit of greater competition, enhanced transparency and flexibility in product options. It aims at channelling savings towards capital markets and benefiting investment and growth in the EU.

A proposal[1] for a regulation to establish a new Pan-European Personal Pension Product (PEPP) was published by the European Commission in June 2017, as one of the actions under the Capital Markets Union action plan[2]. A final text was adopted by the European Parliament on 4 April[3]. The regulation will enter into force 12 months from entry into the Official Journal of the European Union.

WHO IS AFFECTED?

- Consumers, who will be able to contribute to these products wherever they reside in the European Union.
- European investors providing these products.

[1] PEPP Regulation proposal – COM/2017/0343 final

[2] Action plan on building a Capital Markets Union

[3] Press release from the European Commission

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SUMMARY OF ESG REQUIREMENTS

In the Recital (introductory statement), the Regulation puts at the core of the new personal pension product the integration of environmental, social and governance (ESG) factors.

The Regulation requires PEPP providers to invest in accordance with the prudent person principle. As part of the rules under this principle, building on the framing set out in IORP II Directive[4], PEPP providers shall take into account risks related to ESG factors and the potential long-term impact of investment decisions on ESG factors (Article 41, Paragraph 1.b):

The articles of the Regulation set out requirements for PEPP providers to disclose:

- A summary information on how the investment policy takes into account ESG factors (Article 36, Paragraph 1.l);
- Any change to the investment policy regarding ESG factors (Article 35, Paragraph 6.c);
- If available, the performance of the investments in terms of ESG factors in the Key Information Document (Article 28, Paragraph 3.c, xii).

Full text:
http://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COMMITTEES/ECON/AG/2019/02-25/1177088EN.pdf

POLICY CONTEXT

In September 2015, the European Commission adopted an action plan setting out steps to strengthen the integration of European capital markets. This political agreement is a milestone in the implementation of the Capital Market Union (CMU), channelling more savings towards long-term investments in the European Union. In 2018, the European Commission also adopted an action plan on sustainable finance, building from the recommendations of the High-Level Expert Group on Sustainable Finance[5].

PRI POSITION

Through its work with the Fiduciary Duty in the 21st Century Programme, High-Level Expert Group on sustainable finance and response to the consultation on the legislative proposals, the PRI demonstrated that ambiguity around investor duties has been a key barrier to the systematic ESG integration by investors. The PRI welcomes the clarification of the relationship between the prudent person principle and ESG issues. Clarification of investor duties will address a critical market issue and encourage consistent and systematic ESG integration.

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[4] IORP II Directive – Directive (EU) 2016/2341
[5] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en