AFM SFDR and Taxonomy report pension providers

Key points

Since 10 March 2021 pension providers are required to comply with the SFDR. These European regulations require pension providers to be transparent about the sustainability of their investment policies and pension schemes. In addition to the SFDR, the Taxonomy became partially effective as of 1 January 2022.

The AFM reviewed the implementation of the SFDR and the Taxonomy by pension funds and premium pension institutions. These pension providers have implemented measures to comply with the regulations after these came into effect. However, the AFM also sees quite a few areas for improvement. For example, regarding the need to make sustainability information more specific for pension participants. The AFM shares these findings with the pension providers to enable improvements in their sustainability-related disclosures.

The transition to a sustainable economy is one of the greatest challenges of our time. Pension providers have an important role in this sustainability transition, for example by mobilising capital for sustainable investments. Pension providers must supply sound information to participants about the degree of sustainability in their pension schemes. The Sustainable Finance Disclosure Regulation[1] (**SFDR**) and the Taxonomy Regulation (**Taxonomy**) were drafted to promote those disclosures.

In April 2022, the AFM launched a review that examines the implementation of the SFDR and the Taxonomy by 149 pension funds and 7 premium pension institutions (**pension providers**). The AFM sent all these pension providers a request for information, with the aim to learn more about the way in which they implemented the SFDR and the Taxonomy. In addition, the AFM performed an in-depth analysis of 20 pension providers to determine how they inform participants about sustainability.

Principal conclusions

Sustainability disclosures should be easier to understand
The sustainability-related information that pension providers present pursuant to the SFDR and the Taxonomy can be made easier to understand by specifically explaining sustainability-related terms. The AFM has also found that the information provided sometimes appears to contain contradictions. The AFM therefore recommends testing the comprehensibility of the sustainability information provided for participants. This is being done sporadically.

Sustainability disclosures about investment policies should be more specific
Pension providers must be transparent about the way in which they consider sustainability risks in their investment decision-making process and remuneration policies. Most pension providers have published this information on their website, but that information is usually not specific enough. It is not always clear to the AFM what steps certain pension providers do or do not take to manage sustainability risks. Additionally, in some cases there is no connection to preventing excessive risk-taking when it comes to sustainability risks in the renumeration policies.

A minority of the pension providers (31% of the 156 covered in the review) stated in their policies that they do consider the principal adverse impacts of their investment decisions on sustainability factors, this group includes the largest pension providers. They provide the pensions of more than 80% of all pension participants.

The AFM has noted that the statements of pension providers on whether they consider the principal adverse impacts of their investment decisions on sustainability factors are incomplete or not sufficiently substantiated. Pension providers stating that they do consider the adverse sustainability impacts, often do not provide a

[1] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

description of what those adverse impacts are or how they identify and prioritise them. Pension providers often fail to give a clear explanation when they state that they do not consider the adverse impacts of their investment decisions on sustainability factors. This is particularly pertinent in the case of pension providers that have signed the Dutch Pension Funds Agreement on Responsible Investment (*Internationaal Maatschappelijk Verantwoord Beleggen,* IMVB) while at the same time stating that they do not consider the adverse impacts. These pension providers often fail to present a clear explanation of how not considering the principal adverse impacts of investment decisions on sustainability factors can be reconciled with compliance to the IMVB agreement.

Pre-contractual information about pension schemes should be more specific and provided at the product level (pension scheme)
Pension providers must disclose information about the manner in which sustainability risks are integrated in the investment decisions of their pension schemes to participants. The assessment of the likely impacts of sustainability risks on the returns of the pension scheme should also be disclosed. This (mandatory) pre-contractual information was often not provided or incomplete in layer 2 or 3 of the '*pensioen 1-2-3*' pension information. When the AFM did find information, this often concerned generic descriptions that were not specific to the pension schemes.

The AFM finds that virtually all pension participants (93%) have a pension scheme in which sustainability characteristics are promoted. Where environmental and/or social characteristics are promoted in pension schemes, pension providers are subject to an additional requirement to describe those sustainability characteristics and explain how they are met. In several cases, this specific description of the environmental and/or social characteristics promoted by the pension provider is missing. Additionally, the explanation of how these pension schemes meet the sustainability characteristics is insufficient in a number of cases.

Information about the Taxonomy should be more detailed
When applicable, pension providers must state whether the underlying investments of their pension schemes with environmental characteristics, as described in the SFDR, contribute to the environmental objective(s) in the Taxonomy that relate to climate change. This means they are required to provide a percentage, detailing the degree to which they invest in activities that contribute to the two relevant environmental objectives in the Taxonomy. The research concludes that, in practice pension providers do not do this often enough (yet). The main reason pension providers put forward for this is the lack of reliable data to determine whether they comply with the Taxonomy criteria.

Next steps

The AFM is aware that right after the SFDR became into effect, it was not entirely clear how pension providers had to implement the SFDR requirements. The same applies to requirements under the Taxonomy that came into effect. The AFM understands this and realises that there is therefore room for improvement regarding the implementation of the requirements. Additionally, the AFM is also aware that some of the necessary quantitative information is not (yet) available. The AFM is eager to continue dialogue with the sector in 2023 about next steps in the SFDR and Taxonomy implementation.

Additional clarification on the interpretation of the SFDR and Taxonomy requirements is being provided by the European regulator. The AFM assumes the pension providers will remain up to speed with these developments and comply with all requirements in the SFDR and the Taxonomy. It is important to give participants greater insight into the sustainability characteristics of their pension schemes.

The AFM expects pension providers to study the findings in this report and to assess to what extent they apply to them. These insights must be applied in the further implementation of the SFDR and the Taxonomy and the underlying technical standards (RTS). The AFM expects future reviews to show that pension providers have taken clear steps in this regard.