PRI RESPONSE

EIOPA CONSULTATION ON THE TECHNICAL ADVICE FOR THE REVIEW OF THE IORP II DIRECTIVE

22 May 2023

To inform this consultation response, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS CONSULTATION

EIOPA welcomed comments on the technical advice for the review of the IORP II Directive. The advice was given in response to a call for advice from the European Commission. EIOPA will provide its final advice in October 2023.

The call for advice covered in particular the following areas:

- The adequacy of the Directive from a prudential and governance point of view and the Directive's impact on the stability of different types of Institutions for Occupational Retirement Provision (IORPs);
- Cross-border activity and transfers;
- The functioning of the Pension Benefit Statement;
- The need for and possible ways to adapt the regulatory framework to the shift from defined benefit to defined contribution schemes;
- The sustainability aspects of the fiduciary duties and stewardship rules of IORPs;
- Prudential requirements to include diversity and inclusion issues in relation to management bodies.

The PRI welcomes the opportunity to respond to the EIOPA consultation on the technical advice for the review of the IORP II Directive launched on 3rd of March 2023.

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KEY RECOMMENDATIONS

The PRI supports EIOPA's approach to respect the proportionality principle and take into consideration IORPs' specificities. Pension funds are fundamentally different from other financial market participants as they play an important social role in pension adequacy.

The PRI welcomes the integration of sustainability factors in investment decisions by make it mandatory for IORPs to consider sustainability impact in the Prudent Person Rule (PPR, Article 19(1)(b)). Other important suggestions are the clarification of duties[1], the integration of sustainability preferences in investment decisions and the requirement for IORPs to consider a stewardship approach to address sustainability risks. Overall, the technical advice is aligned with our policy recommendations published in the EU Legal Framework for Impact policy report[2].

This consultation response mainly focused on Chapter 6 (Sustainability) and Chapter 7 (Diversity and Inclusion). PRI's key recommendations are:

- While we support the further integration of sustainability risks in the IORP II directive, it is important to clarify how these new requirements will articulate with other relevant files such as the Sustainable Finance Disclosure Regulation[3] (SFDR) or the Corporate Sustainability Due Diligence proposal (CSDD).
- The mandatory consideration of sustainability impact requirement (PPR) should be accompanied by practical guidance as to how this should be implemented.
- Stewardship, alongside capital allocation, should be an essential tool to be considered by pension funds when discharging their duty to take into consideration sustainability impact as part of the PPR.
- The requirement to take into consideration sustainability preferences should not override the responsibility of pension fund managers to observe the requirement to invest in the best long-term interest of members and beneficiaries.
- As stewardship is likely the most effective tool to address sustainability risks, we invite stronger requirements on stewardship than currently proposed by EIOPA. IORPs should be required to develop a stewardship policy which is adapted to the particular risks faced by their investments, such as system-level risks to which investors are likely to be exposed and which are undiversifiable. The stewardship approach reflected in this policy should balance (a) its ability to benefit members' long-term financial returns by mitigating the sustainability risks identified and (b) its cost.
- The stewardship terminology should be clarified by defining the word ''stewardship'' and including a comprehensive list of stewardship tools that can be used. It should be clarified that stewardship includes engagement with policymakers, standard setters, industry groups etc.
- The Diversity & Inclusion (D&I) approach should go beyond gender and diversity and address issues such as equity and other characteristics.

[1] i.e. ''IORPs should be required to pursue positive sustainability goals in their investment and engagement activity if it is in line with the members' and beneficiaries' preferences and it is in their long-term best interest'' see page 183 of the Technical advice.

[2] European Union: Empowering investors to pursue sustainability goals | Thought leadership | PRI (unpri.org)

[3] Regulation (EU) 2019/2088

DETAILED RESPONSE

Chapter 4. Information to members and beneficiaries and other business conduct requirements

Question Q4.2: Do you agree to introduce summary information in the pension benefit statement relating to any sustainable investments? Please explain.

The PRI supports the inclusion of sustainability information in the Pension Benefit Statement (PBS). The PBS should mention whether and how ESG factors are considered in the investment approach. The statement should provide simple qualitative information on how ESG factors are included in the investment activities, from both outside-in[4] and inside-out perspectives of double materiality in order to avoid misleading communication.

Chapter 6. Sustainability

Question Q6.1: What are your views on the consideration of sustainability risks in the recommended requirements, in particular, on how they should be applied in a proportionate manner?

The PRI supports the integration of sustainability risks in the recommended requirements. However, it is important to clarify how these requirements will articulate with other relevant files such as the Sustainable Finance Disclosure Regulation[5] (SFDR) or the Corporate Sustainability Due Diligence Directive proposal (CSDD). We provided detailed comments below on each recommended requirement.

Requirement n°1: ''Include mandatory consideration of sustainability factors in the PPR i.e. Article 19(1)(b) of the IORP II Directive should be amended as follows: "within the prudent person rule, Member States shall require IORPs to take into account sustainability risks in their investment decisions. IORPs shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors proportionate to the nature, scale and complexity of the activities of IORPs".

We support the mandatory consideration of sustainability impact in the Prudent Person Rule (PPR). However, further guidance should be developed by EIOPA as to what this means in practice as it can be interpreted in different ways due to its high-level nature. As set out in the EU Legal Framework for Impact policy report[6], this requirement should extend to considering taking active steps to pursue positive sustainability impacts when that is necessary to address sustainability risks. This aligns with the EIOPA opinion from 2019[7] which points out that taking into account ESG factors "*to reduce the risk exposure of IORPs toward ESG risks is also likely to help IORPs in the pursuit of sustainability*

[4] The Fiduciary Duty in the 21-century project demonstrated that ESG incorporation (outside-in perspective) is part of investors fiduciary duties.

[5] Regulation (EU) 2019/2088

[6] See A legal framework for impact: Integrating sustainability impact across the investment industry report page 14.

[7] EIOPA Opinion on governance and risk management of pension funds of 19 July 2019.

goals [and] conversely, considering the long-term impact of investment decisions on ESG factors can contribute to mitigating IORPs' exposures to ESG risks".

The EIOPA guidance should clarify:

- that the requirement to take into account inside-out risks includes not only investment decisions (i.e., concerning the acquisition or disposal of investments), but also all investors' activities (i.e., stewardship, including engagement with policy makers, standard setters, industry groups, and other actors of the financial system);
- how pension schemes should assess sustainability risks and impacts; how they may set and pursue sustainability impact goals, either when those are in support of financial goals (instrumental IFSI)[8] or pursued in their own right (ultimate ends IFSI[9]);
- how sustainability impact goals relate to financial goals and duties.

Also, more research and guidance at system level on how to link the two sides of double materiality can support the implementation of this new requirement. The guidance should cover how investor activities contribute to systemic risks and their obligations to pursue positive sustainability impacts to address those risks.

Furthermore, stewardship should be an essential tool to be considered by pension funds alongside asset allocation when discharging their duty to take into consideration sustainability impact as part of the PPR. The Legal Framework for Impact report published in 2021 highlighted that stewardship may provide greater scope to influence the way in which capital is allocated within an investee or other areas of its behaviour.[10] Therefore, it should be clarified in the IORP II text that pension funds have a duty to consider how they should undertake stewardship activities relating to sustainability risks and impacts in order to pursue fund objectives and serve beneficiaries' best interests. This should be accompanied by practical guidance developed by EIOPA as to how this should be applied in practice.

Requirement n°2: ''EIOPA advises to include in Article 23 of the IORP II Directive the following provision: "The remuneration policy shall include information on how the IORP takes into account the integration of sustainability risks in the risk management system"

If structured appropriately and implemented effectively, ESG-linked pay can rebalance the excessive emphasis on short-term performance targets in typical remuneration packages, which may run contrary to long-term financial and sustainability objectives.[11]

Considering PRI's position on the CSDD directive proposal and our consultation response, we recommend that, to strengthen the link between remuneration and sustainability performance, IORPs should be required to:

[8] The Legal Framework for Impact report published in 2021 developed the concept of investing for sustainability impact (IFSI) and presents two types: ''instrumental IFSI'' is where achieving the relevant sustainability goal is "instrumental" in realising the investor's financial return objectives; and ''ultimate ends IFSI'' is where achieving the relevant sustainability goal – and the associated overarching sustainability outcome it supports – is a distinct goal, pursued alongside the investor's financial return objectives, but not wholly as a means of achieving them.

[9] Ibid 6.

[10] For more information about investee stewardship and public policy engagement see pages 30 and 31 respectively of the LFI report.

[11] PRI (2021), ESG-linked pay: Recommendations for investors, available at https://www.unpri.org/executive-pay/esg-linked-payrecommendations-for-investors/7864.article. PRI (2012), Integrating ESG issues into executive pay available at https://www.unpri.org/download?ac=1878

1. **Integrate appropriate sustainability criteria into executive remuneration**

IORPs should disclose the rationale, method and challenges presented by the incorporation of ESG metrics into executive pay clearly and concisely, and how these metrics are balanced with other metrics of financial performance that influence executive pay. Relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of the organisation and how the IORPs operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries.[12] For example, if the investment beliefs statement sets out that the pension fund is pursuing climate targets, the remuneration policy should explain how the remuneration structure is linked to these targets.

2. **Take the wider workforce into account**

Remuneration committees should give due consideration to the conditions and pay of the wider workforce when setting director remuneration to ensure proportionate pay policies and structures are in place. This is in line with obligations under the Shareholders Rights Directive (SRD II) which requires institutional investors to explain in their remuneration policy how pay and employment conditions of employees were taken into account when establishing the remuneration policy.

It is of the utmost importance that co-legislators seek harmonisation between the EU files. Therefore, we recommend that EIOPA ensures alignment between the IORP II Directive and other EU directives and regulations (where IORPs are within scope) that also set requirements on executive remuneration, especially the CSDD.

Requirement n°3: EIOPA believes that IORPs which disclose principal adverse impacts on sustainability factors in accordance with the SFDR should also adapt their processes, systems and internal controls with respect to those disclosures. In Solvency II this expectation is stated in a recital.

We agree that it is important to clarify how the IORP II will articulate with other related obligations under SFDR, the future CSDD directive and other relevant frameworks. However, we believe that more clarifications are needed around this proposed requirement because:

- It is unclear whether this proposed requirement would be triggered by PAIs disclosures at entity level (article 4 SFDR), fund level (articles 7,8 or 9) or both.

- It is important to clarify what is meant by *"process, systems and internal controls''*. If this entails an obligation to conduct due diligence according to article 4 SFDR, the same language should be used to avoid confusion i.e. *"adapt their due diligence processes to identify, prioritise and mitigate principal adverse impacts*"

Requirement n°4: EIOPA advises to revise Article 28(2)(h) of the IORP II Directive to include in the own risk assessment (ORA) the application of scenario analysis to quantify the risk exposures to climate change as follows: "where sustainability risks are considered in investment decisions, an assessment of new or emerging risks, including risks related to climate change, use of resources and the environment, social risks and risks related to the depreciation of assets due to regulatory change. That assessment shall include, in a manner that is proportionate to the nature, scale and complexity of the risks inherent in their activities, the use of scenario analyses to quantify the risk exposures to climate change".

[12] PRI (2021), ESG-linked pay: Recommendations for investors, available at https://www.unpri.org/executive-pay/esg-linked-payrecommendations-for-investors/7864.article

We support the inclusion of scenario analysis for risk exposure to climate change. Scenario analysis is essential for financial markets to more accurately assess and price in nature-related risks and allocate capital accordingly. The key function of climate scenario analysis, at least in the first instance, is not (yet) to have comparable disclosure, but rather to challenge conventional wisdom about the future, raise awareness and help organisations think forward on climate change.

In accordance with TCFD guidance, when applied for the first time for reporting, risk scenario analysis can be allowed to be narrative-based, while quantification of climate risks should follow at a later stage. A narrative-based disclosure can set in motion a learning process and build understanding of how nature-related risks and opportunities could evolve over time. This aligns with the TNFD's "heat map" and scenario-based assessment approach but expands it further.
At a first stage, organizations may choose to start with qualitative scenario analysis to help management explore the potential range of climate change implications, including alternatives that may significantly alter the basis for "business-as-usual" assumptions. At a later stage, analysis of scenario development paths can use quantitative information to illustrate potential pathways and outcomes, and more sophisticated data sets and quantitative models and analysis will be developed, in-house or through third party providers.

Requirement n°5: EIOPA advises to include in Article 6 of the IORP II Directive the definitions of "sustainability risk" and "sustainability factors" set out in the SFDR or Solvency II Delegated Regulation.

We agree that it is important to ensure consistency between terminology in IORP II and other EU sustainable finance related policies. In addition to SFDR and Solvency II, EIOPA should also consider alignment with terminology included in CSRD (and draft ESRS) and the CSDD proposal (among others). EIOPA should particularly carefully examine any potential interaction between definitions of "sustainability risks", "sustainability factors" and the concept of (principal) "adverse impacts" on sustainability factors, as defined under SFDR, CSRD and CSDD. The ultimate objective should be ensuring a coherent policy framework that accounts for both sustainability risks and impact by investors and companies.

Question Q6.2: What are your views on the interaction between sustainability preferences of members and beneficiaries, and the requirement for IORPs to take into consideration the sustainability factors in investment decision-making (current Article 19(1)(b))?

These are two separate but related requirements. The requirement to take into consideration sustainability factors under the current Article 19(1)(b) can be extended to taking active steps to pursue positive sustainability impacts when that is necessary to address sustainability risks. Therefore, when achieving the sustainability objective is instrumental in realising the financial return, investors will more likely have a duty to consider pursuing sustainability impact goals, regardless of sustainability preferences of beneficiaries. This aligns with the investor's duty to pursue the best interests of members and beneficiaries by achieving financial returns.

Also, sustainability preferences should be taken into consideration by pension funds managers and inform their decisions in so far as they are consistent with other investment principles included in Article 19(1)(a) and (c) of the Prudent Person Rule, in particular to invest the assets in the best long-term interest of members and beneficiaries. In other words, the requirement to take into consideration sustainability preferences should not override the responsibility of pension fund managers to observe the requirement to invest in their best long-term interest.

Question Q6.3: What are your views on how sustainability considerations should interact with other investment objectives of the prudent person rule (Article 19(1)(a)(c))?

The primary objective of a pension funds is to provide pensions to their beneficiaries. Building on this, our Legal Framework for Impact report[13] demonstrates that this obligation is not excluding the possibility of pursuing sustainability impact goals and contributing to the transition to a more sustainable economy. Therefore, IORPs should be required to consider pursuing positive sustainability goals in their investment decisions and stewardship activity if it is in line with the members' and beneficiaries' long-term best interest, considering all relevant factors including beneficiaries' sustainability preferences (where possible). As we covered preferences in the previous question, this response will focus on the former.

The notion of best interest is key to understanding the type of objectives that investors are allowed to pursue. So far, many lawyers and investors have interpreted this concept rather narrowly as mainly financial interest. Moreover, even the concept of financial interest may have been narrowly applied with insufficient consideration of systemic risks that, were they are to materialise, would damage at least some beneficiaries' best financial interests. Beneficiaries have both a financial and non-financial interest in the sustainability of their social and natural environment, and the goal of investing for sustainability impact is to help ensure that sustainability, recognising that beneficiaries' financial and non-financial interests may not always align. Therefore, further work is needed to embed sustainability impact goals in the concept of best interest where they are relevant to achieving financial goals, and where they are relevant to serving beneficiaries' wider interests. Below we suggest ways to do that:

1. **The concept of beneficiaries' long-term best interest should be clarified**

Highlighting the risks that declining sustainability outcomes pose to the systems on which investment return relies[14] should be the cornerstone of this concept. To this end, EIOPA could clarify in which cases existing duties already require or permit investors to pursue sustainability impact goals (for example, by tackling systemic risks through the pursuit of sustainability impact goals). Moreover, EIOPA should explore whether pension funds, as they operate with long-term horizons, might, as part of acting in the beneficiaries' 'best interest', be obliged to secure future financial interests of beneficiaries by taking sustainability risks into account even where they could not be classified as 'financially material' from a current perspective.

2. **Explore options to allow the pursuit of sustainability impact goals on the basis that it may help serve beneficiaries' broader interests**

One option to explicitly allow for the pursuit of positive sustainability impacts where this is not solely financially motivated is to introduce a "beneficiary presumption". In this scenario, in addition to pursuing beneficiaries' financial best interest, investors would be permitted or required to presume that beneficiaries want their money to be managed in ways that support certain sustainability outcomes and that these are consistent with their best interests, unless the beneficiaries indicate otherwise. Acting on this presumption would involve ultimate ends IFSI, and the presumption approach could operate in a similar way to the policy on organ donation in the Netherlands and the UK, which assumes willingness to donate at death, subject to an opt-out. However, various questions

[13] A Legal Framework for Impact | Thought leadership | PRI (unpri.org)

[14] One of the reasons for engaging in instrumental IFSI.

would need to be addressed, such as how to establish which sustainability objectives to presume and how much weight the sustainability objectives should be given – in particular, compared with financial return. One way of establishing which sustainability objectives to presume could be for supervisory authorities to draw up a list of sustainability impact goals they consider significant, such as those linked to systemic risks or to sustainability goals that are set in law – for example, the EU's legal commitment to reduce its net emissions to zero by 2050. Investors could also cooperate on research to establish beneficiaries' likely attitudes towards sustainability goals generally. As noted in the LFI report, the research currently available appears to suggest that end-investors do want their money to "do good" as well as earn a good financial return.

Question Q6.4: What are your views on the consideration of stewardship to address sustainability risks, in particular, on how it should be applied in a proportionate manner?

We support the consideration of stewardship as a means to address sustainability risks (section 6.7.3, p. 190 of EIOPA technical advice). However, the updated directive should include stronger requirements on stewardship for IORPs than currently proposed by EIOPA for the reasons below:

1. **All IORPs are likely to be exposed to system-level sustainability risks, at least those derived from climate change**

It is very hard to determine with certainty that a given portfolio is *not* exposed to system-level sustainability risks, in particular those derived from climate change. This [2022 report from the European Central Bank] explains that "*with the passage of time, all parts of the financial system are touched by climate-related risk"[15]. But there is also risk in the short term: "the long-term horizons associated with climate change scenarios, while important to frame the trade-offs between transition and physical risk, might underplay the prospect of short-term abrupt climate-related shocks*"[16].

IORPs are subject to the prudent person principle and should act in the best (financial) long-term interest of members and beneficiaries[17]. Thus, it can be argued that IORPs should assume that their portfolios are likely to be exposed to system-level sustainability risks, at least those derived from climate change. Therefore, all IORPs should seek to manage and mitigate the system-level sustainability risks faced by their members.

2. **IORPs have an obligation to mitigate sustainability risks**

If an IORP concludes, or on the available evidence ought to conclude, that one or more sustainability factors poses a material risk to its ability to achieve its financial investment objectives, it will generally have a legal obligation to consider what, if anything, it can do to mitigate that risk (using capital allocation, stewardship, and/or other relevant means) and to act accordingly.[18]

3. **Stewardship is likely the most effective way for IORPs to address system-level sustainability risks**

System-level risk is undiversifiable. This means that divesting assets which are significant contributors to system-level risk will generally not shield the remainder of a portfolio from the negative financial impacts associated with that risk. For example, divesting a high-emitting fossil fuel company will not reduce the exposure of an investor's real estate or insurance assets to climate risk aggravated by that company's emissions.

[15] p.5

[16] Idem 24

[17] See LFI report section 2.2.7 page 279

[18] See LFI report section 7.1 page 14

Instead, a robust stewardship approach that seeks to influence the companies and institutions which actions can reduce system-level risks will often be the most effective way for investors to manage and mitigate system-level risk. In the PRI's definition, stewardship goes beyond the use of investor influence with investees to include engagement with policy makers, standard setters, industry groups, and other actors of the financial system.

Stewardship is also generally shown to be value-enhancing and helps preserve asset values and the stability of the financial system.

4. From a resources perspective, stewardship is accessible to all IORPs

There is a large variety of stewardship tools and approaches available to investors, and not all of them are resource intensive. Stewardship activities available to investors with limited resources include conducting policy advocacy through investor associations, using paid external service providers that pool investor resources to conduct stewardship, or collaborating with other investors to engage investees.

Recommendation

All IORPs are likely to be exposed to system-level sustainability risks and have an obligation to mitigate such risks. Stewardship is likely the most effective way for investors to do so, and from a resources' perspective, it is accessible to all investors.

Therefore, all IORPs should have a duty to engage in stewardship to manage and mitigate the sustainability risks. IORPs should be required to institute a stewardship policy which is adapted to the particular risks faced by their investments, such as system-level risks to which investors are likely to be exposed and which are undiversifiable. The stewardship approach reflected in this policy should balance (a) its ability to benefit members' long-term financial returns by mitigating the sustainability risks identified and (b) its cost. Also, the stewardship approach contained in the policy should be supported by the IORP's internal governance and with commensurate resources.

Last but not least, the stewardship terminology should be clarified. Therefore, the updated directive should:

- Include or refer to a definition of the term "stewardship".
- Include a comprehensive list of stewardship tools or reference another piece of legislation or guidance that has such a list. This is important as a way to reflect the wide variety of actions that IORPs can take to meet their obligation to conduct stewardship as proposed above.
- Clarify that stewardship activities are relevant to all investment strategies and asset classes, and use language accordingly. For example, avoid the term "shareholder engagement policy" currently included in section "6.7.3. Advice", as it excludes investors who are not shareholders, and also excludes voting. Instead, use "stewardship policy".
- Clarify that stewardship goes beyond the use of investor influence with investees, to include engagement with policy makers, standard setters, industry groups, and other actors of the financial system.

See PRI's Reporting Framework Glossary for a reference on stewardship terminology and definitions.

Question: Do you have any other comments on the following sections of chapter 6?

Chapter 6.6.2

We strongly agree that it is important to respect the proportionality principle and take into consideration the IORPs specificities. For example, many pension funds have only one investment policy or limited resources and cannot gather and reflect sustainability preferences in their investment activities. Also, pension funds are fundamentally different from other financial market participants as they play an important social role in pension adequacy. They do not have shareholders or sell products. Therefore, while the Solvency II, IDD or MiFID II sustainability preferences regimes can serve as source of inspiration, these should not be applied in the same way to IORPs.

However, despite their specificities, IORPs are still taking into consideration beneficiary preferences. EIOPA should facilitate sharing of good practices and develop guidance that pension funds can use to gather and reflect beneficiaries' preferences in their investment activities.

Chapter 6.7.1

Stewardship is a tool that can be used for both mitigation of sustainability risks and value enhancement. It would be helpful to flesh out why pension funds should consider stewardship (including policy engagement) for the latter use[19].

Chapter 6.7.2

Extract from EIOPA technical report: ''Under Article 3g (1) of the SRD II, IORPs must develop and publicly disclose an engagement policy describing how they integrate stewardship in their investment strategy or publicly disclose a clear and reasoned explanation of why they have chosen not to develop such a policy. However, these rules are not explicitly designed to deliver positive sustainability impacts as such. Therefore, while the SRD II clearly aims at improving companies' sustainability impacts, it does not oblige IORPs to pursue this aim actively.''

We strongly support the development of an engagement policy by IORPs and in particular the development/setting of concrete goals specifying how shareholder engagement, including members' and beneficiaries' sustainability preferences, are integrated into the investment strategy. To go one step further, pension funds should be transparent on the extent to which stewardship activities are implemented, resources and incentivised. To this end, the Principle 2 of the UK Stewardship code can be followed. This principle requires signatories to explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;

[19] For more information on investee stewardship and public policy engagement see LFI report paragraph 35 page 30 and LFI report paragraph 43 page 31 respectively.

- they have appropriately resourced stewardship activities, including:
    i. their chosen organisational and workforce structures;
    ii. their seniority, experience, qualifications, training and diversity;
    iii. their investment in systems, processes, research and analysis;
    iv. the extent to which service providers were used and the services they provided; and
    v. performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision making

Also, stewardship activities should not be limited to listed equity (as per the SRD II scope of application).

Chapter 7. Diversity and Inclusion (D&I)

Question Q7.1: What are your views on the recommended requirements on D&I in management bodies, in particular on how they should be applied in a proportionate manner?

The PRI welcomes the proposed requirements. However, some elements of the proposal should be strengthened.

Progress on gender diversity has been a good starting point for work on DEI issues; however, regulation needs to expand its focus beyond gender and diversity and address issues such as inclusion, equity and other characteristics to reap the benefits of DEI.

The majority of the proposed changes relate to gender representation. While we acknowledge the relevance of this issue, this is not the only one that should be considered. As highlighted in the PRI's report Diversity, Equity and Inclusion: Key action areas for investors, "gender diversity does not necessarily lead to other types of diversity. Even though we have seen an increase of women in senior positions – for example a study from McKinsey & Co[20] shows that women make up 21% of C-suite positions in the US in 2020, an increase of 3.7% from 2015 – the number of women of colour remains low, representing only 3% of those positions." These facts highlight the importance of intersectionality, where the effects of multiple forms of discrimination (such as racism, sexism, and classism) combine, overlap or intersect, especially in the experiences of marginalised individuals or groups. A greater insight is needed into how groups are treated in the workforce and the barriers that groups face when they have more than one identity which typically experiences inequity or a lack of inclusion.

Inclusion drives diversity at all levels of the workforce. An inclusive company will likely find it easier to hire and retain employees, especially employees from underrepresented groups. Focusing solely on quotas at board level may have a detrimental effect in generating a larger pipeline of potential female or other underrepresented group executives.

Question Q7.2: What are your views on a definition of diversity and inclusion at the European level? Which definition would you suggest? In particular, which diversity criteria should it include?

[20] COVID-19 impact on women and gender equality | McKinsey

PRI Principles for Responsible Investment

According to the PRI, a simple reference to “Diversity and Inclusion” does not fully cover all the elements of this issue. Any discussion around this topic should also extend to include the concept of “equity”, thus making the issue “Diversity, Equity and Inclusion” (DEI).

The terms diversity, equity and inclusion are often used interchangeably. It is important to note that each term has a unique and significant meaning:

- Diversity can be defined as the presence of difference within a given context, such as an organisation.
- Equity means people have fair access, opportunity, resources and power to thrive. The goal is to move beyond historical and systemic barriers to achieve greater fairness of treatment and outcomes.
- Inclusion can be described as the actions taken to understand, embrace and leverage the unique strengths and facets of identity for all individuals so that they feel welcomed, valued and supported.

Any definition that does not take all these factors into account would therefore be insufficient. The PRI does not adopt a general definition of DEI, but rather focuses on the three factors above and the way they interact with one another. In addition, attention should be given to the fact that these issues are often outside the control of the single company or investor, being instead at the macro level. Equality in this case is of fundamental importance, as a focus on it allows to tackle issues that require collaboration and cannot be solved by the actions of a single actor.

Question Q7.3: What are your views on the public disclosure in the annual report of the representation target for the underrepresented gender in the management or supervisory body and the policy on how to increase the number of the underrepresented gender in the management body and its implementation?

The PRI welcomes the move towards mandatory disclosure of DEI information. Mandatory and standardised disclosure on DEI will allow investors to have more complete information on company performance and practices. However, DEI disclosures should go beyond gender and include other characteristics relevant to the country of disclosure and include measurements around inclusion (e.g. data on the promotion, recruitment and retention rates of different employees) that cover the whole organisation and not just the board or C-suite.

In addition, the PRI’s position is that imposing quotas is not sufficient if this is not accompanied by the creation of pathways for underrepresented minorities to access management bodies. Otherwise, the risk is that, once the quota is reached, representation levels would stop growing, effectively turning these initiatives into tick-box exercises.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to further support the work of EIOPA.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org