ACPM | ACARR
The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

October 14, 2022

CAPSA Secretariat
5160 Yonge Street, 16th Floor
Toronto, ON M2N 6L9
Via email: capsa-acor@fsrao.ca

To Whom It May Concern:

RE: CAPSA ESG Considerations

ACPM is the leading advocacy organization for a balanced, effective and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members, including both active plan members and retirees.

We would like to begin by thanking CAPSA for providing the new draft guideline on Environmental, Social and Governance ("ESG") Consideration in Pension Plan Management (the "ESG Guideline").
As noted in the ACPM paper released June 1, 2022 and titled, "Fiduciary Considerations Relating to Environmental, Social and Governance Issues for Canadian Retirement Arrangements" ("ACPM ESG Paper"), we believe that regulatory guidance should be provided for plan fiduciaries on how and to what extent ESG ought to be considered in relation to investing pension assets. Guidance should recognize the legal fiduciary duties which exist, and that lifetime retirement income is the primary goal for pension plan administrators. ACPM also advocated for minimum pension standards legislation to define ESG factors and expressly authorize ESG considerations in investment decisions. The ESG Guideline is a helpful first step down this road.

A) The ACPM ESG Paper also noted the following principles that we believe are important to all guidance and regulations related to pension plans and ESG considerations:

1) Any ESG reporting guidance should be principles-based and should consider the following factors:

    a. Reporting should be clear, transparent, and consistent;

    b. Reporting should not be too onerous, especially for small pension plans;

    c. There should be clear reasoning for the level of detail and format (e.g., standalone report, funding valuation report, SIPP, member statements) of reporting.

2) ESG reporting requirements should recognize that most pension plans in Canada do not invest assets directly. Pension plan administrators typically work with consultants to choose institutional asset managers based on their expertise. Detailed reporting on ESG by pension plan administrators will only be relevant and useful if downstream ESG reporting is uniform and consistent:

a. First, ESG reporting at the company level should follow consistent global standards;

b. Second, a sustainability disclosure framework for the investment industry should be developed with input from key stakeholders, including regulatory bodies and institutional investors such as pension plans;

c. Only once there is comparable disclosure across the investment industry will pension plans be able to effectively disclose appropriate sustainability metrics.

3) There is significant disparity among pension plans in Canada on how ESG decisions are made and their ability to effectively implement those decisions. That disparity should be addressed in any regulatory framework developed to require pension plan administrators to consider and disclose their approach to ESG. A one-size-fits-all approach to regulation has the potential to impose a significant burden on the administrators of small plans, member directed DC plans or plans with limited ability to control or influence their asset manager's implementation of a desired ESG approach.

4) With respect to member-directed DC pension plans it is important for sponsors to:

a. Identify investment options in each asset class on the DC platform;

b. Understand the level of ESG integration in their fund options;

c. Develop an appropriate ESG member communication strategy.

B) Following the principles noted above, we have a number of comments which we would like to share with CAPSA. We have also taken the liberty of attaching a mark up of language changes to the ESG Guideline for your consideration.

1) The ESG Guideline refers to ESG factors, ESG information, ESG characteristics and ESG considerations. We think that it would be clearer to use only one term.

2) We think that it would be helpful to include a definition of ESG factors. The definition should include examples, but also allow for the use of additional factors. For example, UPP's Responsible Investment Policy includes a definition of ESG with a list of potential factors that seems helpful to the reader. See http://myupp.ca/wp-content/uploads/2022/04/UPP_RI_Policy.pdf.

3) Throughout the document (e.g. 2.1), references to "ESG funds" should be clarified. Since ESG factors have material relevance to the financial risk-return profile of the pension fund's investments, administrators should consider how ESG issues are integrated into all the plan's investments, not just those deemed to be "ESG funds". As an example, if a DC plan administrator offers its members a fund which pursues certain ESG goals or impacts, this should be called an "ESG focused fund", while the rest of the traditional funds in a DC line-up consider ESG factors, to some extent.

4) We question whether some of the references to climate in section 1.1 should be removed. While climate is a risk that clearly deserves attention, it is not the focus of this guideline and the guideline should be dealing with all ESG issues.

5) As noted above, ACPM thinks that there should not be a one-size-fits-all approach to the guidance and the concept of proportionality is clearly trying to address this issue. However, we think that the guideline should note that proportionality addresses multiple issues, including complexity, resources, plan administrator's corporate sustainability strategy, governance structure and plan size.

6) We think that Principle 1 should not include "may". ESG should be considered where it is relevant to the financial risk-return profile. Also, we believe that it is important to consider ESG factors along side all other relevant investment issues. Accordingly, we suggest revising Principle 1 to read: "Pension plan administrators (either directly or through their delegates) should consider all information, including ESG factors, that have material relevance to the financial risk-return profile of the pension fund's investments."

7) We also wonder if the first paragraph under Principle 1 should be amended to read to include the word "materially" before the reference to the "impact the plan" as it is material matters that the plan fiduciaries need to consider.

8) With respect to Principle 2, we refer you to our comments in A) 4 above regarding a more detailed description of proportionality.

9) In section 3.2, we question whether the language relating to limiting exposure to a particular ESG risk is appropriate as it does not seem legally permissible for one risk to receive more attention than others, but rather the financial best interests of all plan members is the test to be applied to all ESG risks.

10) We question whether section 3.2.1 should be deleted from this guideline as it seems to be more appropriately placed in a risk management guideline rather than being relevant to ESG alone.

11) In 3.3.1, it would seem that when referencing targets, a statement should be added to the effect that while establishing targets or standards may be helpful methods for plan administrators to operationalize their ESG investment beliefs, this must be done in a manner consistent with protecting the financial best interests of all plan members.

12) We thought that the references to standards relating to executive compensation, diversity, equity and inclusion, labour and cybersecurity standards ought to be deleted and the more general ESG factors discussed in item A) 2 above would instead be referenced.

13) We would suggest that 3.3.2 be amended as the test is not the extent to which financial performance is affected but, once again, rather that the financial best interests of the plan members are the consideration.

14) With respect to 3.3.3, the concept of proportionality ought to be reflected again as only some pension plans will have the type of investments (i.e. direct) that will allow such actions.

15) In Principle 3, following our concerns relating to section 3.3.3, we would suggest "Where appropriate" be changed to "When investing directly in companies". We also question whether the disclosure of ESG factors is too broad. Investment issues are not typically disclosed by type of consideration. We also think that the last paragraph should be deleted as it is too onerous to impose on plan administrators. Plan administrators should be able to look to the pension regulators for guidance on these issues.

Thank you for your consideration and we can be available if we can be of further assistance.

Sincerely,

Ric Marrero
Chief Executive Officer
ACPM