Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds

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INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS
SUPERVISORY GUIDELINES ON THE INTEGRATION OF ESG FACTORS IN THE INVESTMENT AND RISK MANAGEMENT OF PENSION FUNDS

Background note

1. Investment and risk management of pension funds constitute two of the most important elements of governance. Some of the issues related to investment and risk management process of pension funds were already addressed in the OECD Core Principles of Private Pension Regulation (2016)\(^1\), the OECD/IOPS Good Practices for Pension Funds’ Risk Management Systems (2011), and the OECD/IOPS Good Practices on Pension Funds’ Use of Alternative Instruments and Derivatives (2011). The OECD Core Principles of Private Pension Regulation deal with investment and risk management process (Core Principle 4) in general\(^2\), whereas the above OECD/IOPS Practices focus on risk management and investment process of pension funds in the context of alternative instruments and derivatives.

2. However, recent developments show that in their investment analysis process pension funds, like other institutional investors, take more and more often environmental, social and governance (ESG) risks and opportunities into account.\(^3\) In the context of pension funds (schemes), such an expectation may arise from fund members, investment managers or policy makers. Pension fund members might be concerned about various issues in relation to companies the funds invest in, such as for example, environmental factors, fair treatment of the labour force or production of controversial weapons. Members may therefore exert pressure on a governing body to alter a pension fund’s asset allocation. Managers of pension funds may be worried of the potential effects of the implementation of policy measures (new regulations) that may have adverse impact on the value of their investment portfolio. The drive for such change in the mind set can also be prompted by already existing regulations and the rapidly evolving initiatives of international organisations. These relate to developments such as the Paris Agreement – a global climate treaty negotiated at the COP21 meeting in Paris in October 2016, the work of the PRI\(^4\) and the Task Force on Climate-related Financial Disclosures\(^5\), new IORP II Directive, or the work of G20 Sustainable Finance Study Group. Most recently, the Central Banks and Supervisors Network for Greening the Financial System was established to better understand and manage the financial risks and opportunity of climate change\(^6\). The importance of responsible business conduct has been raised by the OECD\(^7\). In addition, the European Commission has been working on issues related to ESG factors. In May 2018, the Commission presented a package of measures as a follow-up to its action plan on financing sustainable growth. The package includes three proposals aimed at

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\(^1\) [http://www.oecd.org/finance/principles-private-pension-regulation.htm](http://www.oecd.org/finance/principles-private-pension-regulation.htm)

\(^2\) The Core Principle 4 provides implementing guidelines on such key features as: retirement income objective and prudent principles; prudent person standards – fiduciary standards and safeguards; investment policy – objectives, process and review; portfolio limits and other quantitative requirements; valuation of pension assets; performance assessment and monitoring procedure.


\(^5\) [https://www.fsb-tcfd.org/](https://www.fsb-tcfd.org/)


establishing a unified EU classification system of sustainable economic activities (so-called “taxonomy”); improving disclosure requirements on how institutional investors integrate ESG factors in their risk processes; and creating a new category of benchmarks that will help investors compare the carbon footprint of their investments.\(^8\) The Commission established the EU High-Level Group on Sustainable Finance (HLEG) that published its report in August 2018. Amongst its various recommendations, the HLEG underlines that investor duties should be clarified by “extending the time horizons of investment and bringing greater focus on ESG factors into investment decisions”, as well as “upgrading disclosures to make sustainability opportunities and risks transparent” to investors.\(^9\)

3. The above-mentioned Paris Agreement commits signatories to follow through with their pledges to help contain global warming to within 2°C of pre-industrial levels by introducing legislation to mitigate climate change. From the perspective of the pension funds, this implies that a possible depreciation of assets in the future may occur due to changes in regulations and/or asset allocation by institutional investors.

4. The industry-led Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board, works to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The Task Force developed voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks\(^10\). The Task Force expects that its recommendations will be followed not only by all financial and non-financial organisations with public debt or equity but also by organisations across all sectors, including asset managers and asset owners such as public- and private-sector pension plans and insurance companies. The rationale is that “climate-related financial information should be provided to asset managers’ clients and asset owners’ beneficiaries so that they may better understand the performance of their assets, consider the risks of their investments, and make more informed investment choices”.

5. Following the implementation of the IORP II Directive, pension funds in the European Union classified as Institutions for Occupational Retirement Provision (IORP) will be required to conduct risk management assessments “which should, where relevant, include, inter alia, risks related to climate change, use of resources, the environment, social risks, and risks related to the depreciation of assets due to regulatory change (‘stranded assets’)”.\(^11\) Moreover, the IORP II Directive will require that IORPs explicitly disclose where ESG factors are considered in investment decisions and how they form part of their risk management system.\(^12\)

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\(^8\) https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en


\(^12\) “The relevance and materiality of …[ESG]… factors to a scheme's investments and how such factors are taken into account should be part of the information provided by an IORP under this Directive. This does not preclude an IORP from satisfying the requirement by stating in such information that …[ESG]…factors are not considered in its investment policy or that the costs of a system to monitor the relevance and materiality of
6. In a number of other jurisdictions, ESG issues are already addressed in legislation. For instance, in Brazil, Resolution 3792 requires investors to take social and environmental factors into account when making investment decisions. Colombia’s supervisor authority is developing a guideline on due diligence process in investment by pension funds that will include the analysis of ESG factors. In Denmark, the Guidelines for financial reporting covering pension funds and insurance companies (BEK no 937 af 27/07/2015) state that companies that have their securities admitted to trading on a regular market in an EU/EEA country as well as companies that run life insurance business must supplement their management report with a statement of social responsibility. The statement describes how the company voluntarily integrates in its business strategy and activities, amongst others, human rights, social conditions, environmental and climatic conditions. In case the company has no such policy, this fact must be disclosed. In Mexico, the recently updated (November 2018) General Provisions on Financial Matters establish that pension funds may consider ESG factors in their risk management policy and investment strategy. If the administrator of a pension fund in Mexico decides through its Committees, to integrate ESG factors in its investments and risk management, it should briefly explain in the information handout the purpose of these investments and how ESG factors are incorporated in both investment and risk management. In South Africa, the Financial Sector Conduct Authority (FSCA) issued for consultation a draft directive prescribing the sustainability reporting and disclosure requirements for pension funds. The directive will require that boards of funds consider environmental, social and governance factors before investing in an asset. Introduction to Guidelines

7. Regulatory frameworks in most of the jurisdictions tend to focus (via risk-based controls and prudential standards) on governance of pension funds including risk management systems but still do not explicitly refer to Environmental, Social and Governance (ESG) factors. This document contains a set of guidelines on the integration (i.e. interpretation, role and use) of ESG factors in the area of supervision of pension fund investment and risk management. The document proposes also an enhanced disclosure of ESG factors by pension funds. These Guidelines should be read in conjunction with the International Organisation of Pension Supervisors (IOPS) Principles of Private Pension Supervision and good practices on pension funds investment governance. The Guidelines are voluntary in nature and are intended to guide regulators, supervisors, and other entities involved in supervision of pension risk management and investment. Therefore, the word “should” is to be interpreted as an encouragement to supervisory authorities to voluntarily adopt and implement them. When elaborating these draft guidelines other existing international standards were considered to avoid duplication.

8. The subject matter is relatively new and dynamically evolving. Therefore, it will be critical for the IOPS to bring the views and experience of the Members together on how ESG factors should be considered and integrated in the supervision of investment and risk management of pension funds. The aim of this document is, based on gathered experiences, to help supervisors respond to possible further regulatory developments in this area. ESG factors represent both potential risks and opportunities to pension funds. It is important to underline that these Guidelines do not intend to induce pension funds into ESG investments

such factors and how they are taken into account are disproportionate to the size, nature, scale and complexity of its activities.” (IORP II Directive, Preamble, point 57).

13 OECD (2017), Investment governance and the integration..., op. cit. However, with regard to EU and EEA Member States this situation will change with the transposition of the IORP II Directive into national law by 13 January 2019.


but to require them to consider in their investment and risk management process ESG factors that may have financial consequences.

9. The implementation of these Guidelines may vary from jurisdiction to jurisdiction depending on the structure of the private pension system. While the principle of proportionality\textsuperscript{16} is explicitly mentioned in guidelines 1.5 and 1.10, it should also be taken in the account in the implementation of other guidelines. As a result, the Guidelines are non-binding and they are to provide guidance and serve as a reference point for supervisory authorities. As such, supervisory authorities may apply them if they so wish in accordance with their regulatory and supervisory framework and the structure of their private pension system. Since the Guidelines are largely principle-based, they should be flexible in their application.

10. Like the previously developed IOPS principles and guidelines, these Guidelines are intended to apply to funded private pension funds or plans where assets are being invested in capital markets during accumulation and decumulation phases, regardless of whether these pension arrangements are voluntary or mandatory in nature and regardless of whether they serve as the primary or supplementary source of retirement income.

Definitions

11. These Guidelines define ESG factors as “indicators used to analyse a (investee) company’s prospects” (OECD, 2016)\textsuperscript{17} which are based on measures of its performance on environmental, social, and corporate governance criteria\textsuperscript{18}. The investments by pension funds are long-term and are therefore exposed to the longer-term financial risks. ESG risks and opportunities include those related to environmental issues (including climate change), social issues, unsustainable business or unsound corporate governance practices. According to the definition by the United Nations Principles of Responsible Investment, environmental issues relate to “the quality and functioning of the natural environment and natural systems”, social issues relate to “the rights, well-being and interest of people and communities”, and governance issues relate to “the governance of companies and other investee entities.”\textsuperscript{19} Most ESG risks and opportunities have a long-term nature and therefore are obviously relevant for long-term investors such as pension funds. In particular, complex and difficult to predict effects of climate change and related regulatory responses may have a long-term character and may not be immediately and fully reflected in financial markets.

12. Governing body is defined as “the person(s) ultimately responsible for managing the pension fund with the overriding objective of providing a secure source of retirement income. In cases where operational and oversight responsibilities are split between different committees within an entity, the governing body is the executive board of the entity. Where the pension fund is not a legal entity, but managed directly by a financial institution, that institution’s board of directors is also the governing body of the pension fund.”\textsuperscript{20} The term covers also cases where the governing body is comprised of trustees.

\textsuperscript{16} I.e. the size and internal organisation of pension funds, as well as the size, nature, scale and complexity of the activities of pension funds and complexity of governing structure.

\textsuperscript{17} OECD (2017), Investment governance and the integration..., op. cit., page 7.

\textsuperscript{18} I.e., contrary to the original OECD (2017) definition, these Guidelines assume that ESG factors do not include ethical criteria.


13. For the use of these Guidelines, financial factors are understood as those which may influence investment decisions because of financial reasons. For example, an institutional investor may decide about disinvesting from a certain company due to concerns about the company’s future legal litigations or loss in its shares’ value including ‘stranded assets’. Non-financial factors are those that may also influence investment decisions but such decisions are not motivated by financial reasons. For example, an institutional investor may decide about disinvesting from a company because of ethical considerations, independently from an assessment of the likelihood that the company loses value because of its unethical behaviour.\(^{21}\) Obviously, non-financial decisions still may have financial implications for the pension fund.

14. ESG-related factors may have a direct, and potentially substantial, financial impact on savings and well-being of pension fund members, particularly in the longer term. Therefore, for the purpose of this document ESG factors will be considered as a subset of financial factors.

Examples of ESG risks and opportunities

15. Environmental risks may represent physical risks that stem from the direct impact of natural catastrophes such as earthquakes or floods, climate change, greenhouse gas emissions, renewable energy, resource depletion, including water waste and pollution and deforestation on physical environment and individuals. These may, for example, affect resource availability, disrupt or damage supply chains, or damage property and assets as a result of severe weather (droughts, floods, storms, change of sea and water levels, deforestation, waste and pollution, etc.). They may also relate to transition risks that stem from the much wider set of changes in policy, law, markets, technology, investor sentiment and prices due to the transition towards a low-carbon economy.\(^{22}\) Transition risks may therefore materialise themselves in re-pricing of carbon-intensive assets and reallocation of capital, adversely affecting asset owners and managers, including pension funds. A third group of risks related to climate change are liability risks that may affect insurers, governments and government agencies\(^{23}\) due to legal or moral responsibility to cover financial losses caused by climate-change-induced events. Environmental issues may also provide opportunities such as access to new markets and new technologies.\(^{24}\)

\(^{21}\) Non-financial factors are “factors which might influence investment decisions that are motivated by other (non-financial) concerns, such as improving members’ quality of life or showing disapproval of certain industries.” (Definition by the UK Pensions Regulator (2014), Fiduciary Duties of Investment Intermediaries Report Guidance, [http://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/](http://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/)). In this vein, investment decisions influenced by these factors are not motivated by financial reasons, even though effects of such decisions can be quantified in financial terms (e.g. withdrawing investments from a particular industry due to ethical concerns).


16. **Social risks** relate to working conditions, including slavery and child labour; local communities, including indigenous communities; conflicts; health and safety issues (e.g. mining accidents); employee relations and diversity, industrial actions (strikes) etc.\(^{25}\) Also, technological innovations, including digital changes can, beside opportunities\(^{26}\), create some social\(^{27}\) and operational risks.

17. **Governance risks** relate to executive pay, the respect of the rule of law, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy, cybersecurity, accounting frauds, etc.\(^{28}\) Typical issues relating to listed equity companies include: “board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company’s management, its board, its shareholders and its other stakeholders.”\(^{29}\) In addition, governance issues regarding issuers can relate to anti-money laundering (AML) and combating the financing of terrorism (CFT) concerns. In case of unlisted companies, governance issues “also include matters of fund governance, such as the powers of Advisory Committees, valuation issues, fee structures, etc.”\(^{30}\) Governance issues may also provide opportunities for improving a fund’s governance.

18. These Guidelines were submitted for discussion by IOPS Members. At the current stage, they will also benefit from the input of the OECD Working Party on Private Pensions and other stakeholders, including international organisations.

I. **ESG factors in the investment and risk management process**

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

1.2. **Supervisory authorities should clarify to a pension fund governing body or the asset managers, possibly through regulations, rules or guidelines, that the explicit integration of ESG factors into pension fund investment and risk management process is in line with their fiduciary duties.**

1.3. **When pension funds offer investment options to members that partly take into account non-financial factors, such options may possibly result in sacrificing some return as compared to options that are defined on purely financial grounds. In this case, supervisory authorities should require that the**

\(^{25}\) See United Nations Principles for Responsible Investment, [https://www.unpri.org/about/what-is-responsible-investment](https://www.unpri.org/about/what-is-responsible-investment)

\(^{26}\) For example, enhanced data processing may improve access to insurance products, drastically reduce the amount of time a customer must wait to receive a policy, and create more distribution channels for customers to choose from.

\(^{27}\) For example, technological innovations may result in a reduced privacy of individuals or an unequal access to certain financial services. Some individuals may face discrimination with regard to prices of financial services (e.g. insurance, loans) due to enhanced data processing and risk profiling (e.g. use of genetic data for price discrimination).

\(^{28}\) See United Nations Principles for Responsible Investment, [https://www.unpri.org/about/what-is-responsible-investment](https://www.unpri.org/about/what-is-responsible-investment)


potential and actual members be properly informed so that they can make an informed choice in selecting their investment options.

1.4. Supervisory authorities should require that when offering investment arrangements, the pension fund’s investment policy should consider ESG factors with no prejudice for the objective of obtaining an appropriate risk-return profile on purely financial grounds.

Annotation

19. (1.1) The OECD Core Principles of Private Pension Regulation state that the duty of pension providers is to manage the assets in the best interests of their members and beneficiaries. Objectives of investment undertaken on behalf of pension fund members have been traditionally defined by governing bodies and asset managers in financial terms: pension funds are typically expected to maximise the risk-adjusted returns/retirement benefits or to preserve the real value of pension assets/retirement benefits. They do so by focusing on financial risks. ESG factors are often considered to be non-financial31 factors or be part of non-financial performance indicators.32 However, even so, ESG factors may have a direct, and potentially substantial, financial impact on savings and wealth-being of pension fund members, particularly in the longer term. Therefore, for the purpose of this document ESG factors will be considered as financial ones.33 Indeed, ESG factors may materially impact the long-term risk and return of investments, a company’s valuation and reputational risk, as well as its operational efficiency (governance). As a result, a prudent investor should integrate these factors into their investment and risk management process. When considering ESG strategies, governing bodies of pension funds should also take into account costs related to implementation of such investment strategies.

20. (1.2.) Governing bodies of pension funds in some jurisdictions have already started integrating ESG factors in their investment and risk management process34. This process will continue in the EU and EEA zone with the transposition of the European IORP II Directive. However, in some jurisdictions, particularly in common law jurisdictions where trustees constitute the pension governing bodies, a lack of guidance from pension supervisory authorities on integration of ESG factors may create legal uncertainty on how such integration fits with governing bodies’ legal, regulatory and other obligations.35 ESG investing may provide opportunities related to clean technologies, reduce the risk of financial losses due to physical damages caused by climate changes or environmental and regulatory changes36, help address social needs (such as communication with workers and stakeholders) and improve governance (for example, by avoiding companies with little engagement with minority stakeholders, opaque standards or conflicts of interests). Improved reputation and governance may translate in better financial performance. Any guidance from

32 http://lexicon.ft.com/Term?term=ESG
33 See OECD (2017), Investment governance and the integration..., op. cit.
34 Such as Australia, Canada, France, the UK.
36 Therefore reducing or avoiding the risk of stranded assets that may occur due to changes in demand and/or regulatory changes.
supervisory authorities, especially in common law jurisdictions, should aim to eliminate uncertainty on integration of ESG factors in decision-making by pension governing bodies. Despite the potential opportunities, the risks of ESG investments also have to be adequately considered.

21. (1.3.) Pension fund members must be made aware of any sacrifice of risk-adjusted returns that can occur due to following investment strategies (e.g. ethical investment) that are not entirely based on financial factors.

22. (1.4.) Investment strategies, including the default investment strategy, should be defined and explained in a pension fund’s investment policy statement. Such policies should establish clearly the financial and other objectives of the pension fund and the manner in which these objectives will be achieved, being consistent with the retirement objective of the pension fund. The investment policy should outline how a pension fund intends to consider environmental, social and governance risks while pursuing its risk-return objective.

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

1.5. Supervisory authorities should require that a governing body and the asset managers involved in the development and implementation of a pension funds’ investment policy integrate ESG factors, along with all substantial financial factors, into their investment strategies (analysis and decision-making process). Supervisory authorities should avoid being overly prescriptive on how governing bodies should deal with ESG factors but rather emphasize the need to document the ways a particular governing body is treating such factors. Supervisory authorities should also request that in case these factors are not integrated in investment and risk management process, a governing body and the asset managers provide explanations. Integration of ESG factors may be subject to the principle of proportionality, i.e. the scale of the pension funds and complexity of its governing structure.

1.6. Supervisory authorities may, however, wish to issue regulations, rules or guidelines on how a pension fund’s governing body or the asset managers when setting up their investment policy, should analyse ESG factors.

Annotation

23. (1.5.) When pursuing financial returns, pension fund governing bodies and asset managers should consider all substantial factors that can financially impact a pension fund. However, prudential regulations or rules should not make a separate case for ESG risks or any other emerging risks (such as for example digital innovations) but encourage pension funds’ governing bodies or asset managers to fully integrate ESG factors into their risk management and investment management process. Governing bodies should therefore integrate risk factors that are relevant for a pension fund and its members and beneficiaries, and have them implemented in the overall investment process. The governing body should be able to demonstrate to supervisors how they can take into account these factors. The granularity level of incorporation of ESG factors and other substantial financial risks in investment and risk management process may be subject to proportionality principle, as for example, smaller pension funds that outsource investment management activities may find it at the beginning more difficult and costly to incorporate these factors.

24. (1.6.) While not being overly prescriptive, supervisory authorities may wish to issue regulations, rules or guidelines on how governing bodies should accommodate or integrate in their investment policy factors that are financially material to the performance of an investment, including ESG factors, as well as any other issues that are financially significant. Supervisory authorities should ensure that a pension fund governing body and the asset managers analyse these factors in terms of implications for pension funds members and beneficiaries.

37 For example financial innovation issues such as blockchain technology or robo-advice.
beneficiaries. In less sophisticated and deep markets where there is no legal requirement for companies to disclose ESG-related information, data on ESG factors may be limited. In that sense, pursuing investments only in companies that adhere to ESG principles might be restrictive.

25. (1.6. cont.) The investment policy statement should set up a pension fund’s risk appetite in line with the members’ preferences, where relevant, and specific attributes of the fund. Therefore, such approach should be broader than incorporating the ESG factors only. In particular, in order to be able to undertake any investment strategy that incorporates ESG or other emerging risks, governing bodies and the asset managers should, when it is possible, make sure they are able to not only identify but also measure and monitor these risks.

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

1.7. Supervisory authorities should require that a governing body or the asset managers involved in the development and implementation of the pension fund’s investment policy will report how they integrate ESG factors in their investment and risk management process.

1.8. Supervisory authorities should issue regulations, rules or guidelines on how a pension fund’s governing body or the asset managers, when setting up their investment policy, should report on substantial financial factors, including ESG factors.

1.9. Supervisory authorities should require that, in their investment policy statement, a governing body or the asset managers of a pension fund disclose to its members information about the pension funds’ investment policies in relation to long-term sustainability, including ESG factors, stewardship and non-financial factors. Where appropriate, pension funds should also regularly provide reports on their engagement with investees as well as request companies in which they invest to disclose their ESG-related policies.

Annotation

26. (1.7.) Supervisory authorities should expect that pension funds will report on their awareness of ESG-related risks, estimated exposure to these risks, and methods they use to incorporate ESG factors in their investment and risk management process. In particular, pension funds may wish to present their plans for the transition towards low carbon economy and the ways they manage risks related to changes to market sentiment, new financial or environmental regulations or the emergence of new technologies.³⁸ A possible form of reporting of the integration of ESG factors in the investment and risk management process can be the provision of the investment policy and the risk management rules to the supervisory authority as well as informing other stakeholders. Based upon the information received from supervised entities, supervisory authorities may consider developing a heat-map of potential ESG-related risks, including climate change, in its pension industry and/or identify entities with the best practices.

27. (1.8.) When issuing regulations, rules or guidelines on reporting ESG factors, along with other substantial financial factors, supervisory authorities should consider existing international work on this matter and industry standards, with a proper account given to the stage of development and other specificities of local pension and financial markets.

28. (1.9.) Governing bodies of a pension fund or agents who exercise ownership rights of a pension fund, should disclose the information on their engagement with the companies the pension fund invests in, including voting and engagement rights, in order to safeguard sustainable returns in the long term. Investment, voting and engagement activities should be reported to pension fund members and stakeholders on a regular basis. Financial disclosures on ESG matters (e.g. carbon footprints) should help investors appropriately assess and price ESG risks and opportunities, therefore creating the right incentives for investors, as well as help pension fund governing bodies, members and their beneficiaries understand the risks of pension fund investment and make more informed investment decisions. Pension funds should be informed about the ESG-related policies of their investees (companies) and relevant disclosures.

IV. Scenario testing of investment strategies

1.10. Supervisory authorities should encourage a governing body or the asset managers of a pension fund to develop appropriate scenario testing of its investment strategy. Such test should consider all substantial financial factors, including ESG factors. The scope and complexity of stress tests should be subject to the principle of proportionality.

Annotation

29. (1.10.) Governing bodies of a pension funds or asset managers should be encouraged to determine appropriate scenarios tests for each investment strategy. Scenario-based thinking about risks should support risk management. Such scenarios should cover a range of factors, including ESG factors (environmental risk scenarios in particular) that can cause extraordinary losses or make the control of risk in the investment strategy difficult. Governing bodies of a pension fund or the asset managers should use these scenarios to undertake scenario testing in order to confirm that the particular investment strategy is appropriate, prior to implementation. The principle of proportionality should apply.


40 With regard to climate-related information, the Task Force on Climate-related Financial Disclosures recommends institutional investors to disclose the information about: 1) the organization’s governance around climate-related risks and opportunities; 2) the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning; 3) how the organization identifies, assesses, and manages climate-related risks; 4) the metrics and targets used to assess and manage relevant climate-related risks and opportunities. (Recommendations of the Task Force…, op. cit., p. 16). Sustainability Accounting Standards Board (SASB) provides industry-specific sustainability accounting disclosure standards, including measurement metrics.

41 The Task Force on Climate-related Financial Disclosures recommends that financial investors describe the potential impact of different scenarios, including a 2°C scenario, on the organization’s businesses, strategy, and financial planning (Recommendations of the Task Force…, op. cit., p. 16).