



Municipal Pension Board of Trustees

Mail: PO Box 9460, Victoria BC V8W 9V8 ♦ Location: Ground Floor, 320 Garbally Road, Victoria, BC V8T 2K1
Phone: 250 356-6220 ♦ Fax: 250 356-6245 ♦ Email: mpbt@pensionsbc.ca ♦ Web: mpp.pensionsbc.ca

March 7, 2019

Dariusz Stanko
Secretariat
International Organisation of Pension Supervisors
dariusz.stanko@oecd.org

via email

Dear Dariusz Stanko:

Subject: Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds

We are writing in response to the public consultation on the Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds. The British Columbia (BC) Municipal Pension Plan (MPP) supports the International Organization of Pension Supervisors' creation of guidance related to the consideration of environmental, social and governance (ESG) factors by pension funds.

By way of background, the Municipal Pension Plan (MPP) is the largest pension plan west of Ontario and the sixth largest pension plan in Canada with more than \$51 billion in assets, more than 300,000 members and more than 900 employers in the health, local government, education and community services sectors. We are a multi-employer, contributory, defined benefit pension plan governed by a joint board of trustees. As a large plan provider, we strive to be an industry leader and an effective participant in the pension industry.

The BC Municipal Pension Plan is a signatory of the United Nations Principles for Responsible Investment. As such, we promote acceptance and implementation of the PRI principles within the investment industry, regulatory environment and policy developments.

While the guidelines are not intended to induce investors to make ESG investments, the guidelines would require investors to consider them during their investment and risk management processes. We support this approach, believing that ESG factors should be considered as part of investment analysis and decision-making, and in the exercise of ownership policies and practices. We also believe pension plans should be transparent with members and stakeholders about how ESG considerations are taken into account.

There are mixed perspectives in Canada as to the nature of ESG factors. While generally recognized as contributing to long term sustainable investment returns, there are members of the pension and investment community that believe ESG considerations are non-financial factors. Clear legislative intent or regulatory guidelines explicitly requiring pension plans to consider ESG factors would be welcome, and clearly signal that ESG integration is consistent with fiduciary duties.

For example, in British Columbia, the *Pension Benefits Standards Act* and regulations explicitly requires the board to i) act in the “best financial interests” of the plan’s beneficiaries and ii) establish a governance policy that identifies the material risks to the plan and implement appropriate controls. We interpret and understand the legislation to permit and require the plan to consider material ESG considerations in assessing the plan’s risk-adjusted financial returns, and we believe the regulator shares our view. However, there is no written legislative or regulatory guidance in BC to this effect.

In contrast to BC, we note that the proposed guidelines would expand on the legislative requirements in Ontario which require pension plans to disclose how ESG considerations were integrated, if at all. While Ontario is one of the few jurisdictions in Canada with any direction on ESG integration, we believe the guidelines would be seen as an improvement in the province. Our understanding is that the Ontario legislation causes some confusion for the pension community, as it remains unclear to many whether ESG factors *should* be considered.

As the OECD has noted, “Interpretations of institutional investors’ responsibilities and how ESG integration can contribute to them vary. Institutional investors face practical and behavioural barriers in reconciling their obligations towards their beneficiaries and integrating ESG factors in their investment governance.”¹

In response to the proposed guidelines, we would offer the following comments:

Guideline 1.1

The annotation to Guideline 1.1 notes, “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”.

In addition to their impact on individual companies, ESG factors also play a role in addressing systemic investment risks to pension funds that affect long term rates of return. The Guideline would be strengthened by including reference to systemic risk in this context.

Guideline 1.2

ESG factors can be applied broadly to investment processes and potential investments. The references in Guideline 1.2 to “ESG investing” and “ESG investments” might suggest that these

¹ OECD (2017), *Investment governance and the integration of environmental, social and governance factors*, page 21.

represent specific or niche approaches. As an alternate, reference might be made to “taking ESG factors into account in the investment process” or to “ESG factors related to investments” generally.

Guideline 1.6

In setting investment policy related to ESG factors, including proxy voting policies, international standards and norms provide a helpful benchmark. Mention of these in the annotation to Guideline 1.6 would provide a useful reference.

Guideline 1.9

The BC Municipal Pension Plan believes that transparency is important to members and stakeholders, particularly with respect to how ESG factors are taken into account in the plan’s investment and risk management. We support the inclusion of stewardship among the topics on which information should be provided.

While we support the direction that “Where appropriate, pension funds should also ... request companies in which they invest to disclose their ESG-related policies,” this direction might be better located in Guideline 1.6. This direction is consistent with the PRI principle we support, namely “We will seek appropriate disclosure on ESG issues by the entities in which we invest.”

In summary, we support the following legislative reform or pension supervisory authority guidance:

- The consideration of ESG factors in the investment process is consistent with pension plan fiduciary duties
- Pension plans should consider ESG factors in the investment process and disclose how ESG is integrated.

Thank you for the opportunity to comment on these guidelines. If you have any questions about this comment letter, please contact Judy Payne, Executive Director, BC Municipal Pension Plan at judy.payne@pensionsbc.ca or 778-698-6203.

Sincerely,



Gary Yee
Board Chair

cc Canadian Association of Pension Supervisory Authorities
Financial Institutions Commission of BC
Ministry of Finance, Province of BC