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**Mr. Pablo Antolin**  
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Kassel, 7th Oktober 2015

## **Re: Consultation on Core Principles of Private Pension Regulation**

Dear Sir,

We write in response to your request for comments on the Draft Recommendation of the Council on the Core Principles of Private Pension Regulation released in July 2015. We appreciate the efforts of the Working Party on Private Pensions and the Council of the Organisation for Economic Cooperation and Development to try to improve the world's pension systems.

This our response to the revision of OECD's "Core Principles of Private Pension Regulation", and especially about Section 4.16 of the draft Core Principles.

1. Section 4.16 of the Core Principles discourages investment in employer stock, such as with employee stock ownership plans in the U.S.A. (ESOPs), as not providing sufficient diversification.

That section contends that:

"Self-investment by those undertaking investment management of pension funds should be prohibited or, where appropriate safeguards exist, strictly controlled. Investment in the assets of the plan sponsor, in parties related or affiliated with the governing body of pension fund, the pension entity or pension fund management company should be prohibited or strictly limited to a prudent level so as to ensure diversification (e.g. 5 percent of the pension fund assets) or otherwise avoid undue risks or costs to members. When the plan sponsor, the pension entity or the pension fund management company belong to a group, investment in entities belonging to these same groups should also be limited to a prudent level of diversification, which may be a slightly higher percentage (e.g. 10 percent of the pension fund assets)."

2. These OECD principles are about pension funds or entities. This includes American Employee Stock Ownership "Plans", known as "ESOPs". This is the most typical form of employee share ownership in the world, and it is a pension plan. We underline that this applies only to US-based "ESOPs" which are expressly designed as pension plans. Because the "ESOP" acronym is frequently used all over the world for many employee share ownership schemes (not only employee stock ownership plans, but also employee share ownership plans, employee stock option plans, employee share option plans), these new OECD guidelines could have a negative impact for employee share ownership as a whole. This would be highly damaging not only for employee share ownership but for OECD countries in general. These new principles seem inappropriate to the employee share ownership phenomenon.
3. Employee share ownership is the result of employees' investments in shares of their company. Over the last thirty years, employee share ownership has developed strongly in Europe. In some figures: Today, 86% of large European companies have employee share plans, the number of employee shareholders was multiplied by 10, reaching 10 million people and a total investment of 301 billion Euro in 2014 .
4. Employee share ownership is generally promoted by economic policies. Indeed, a well-conducted employee share ownership policy brings beneficial results in terms of productivity, profitability, economic growth and employment. As formulated, the OECD project poses an unfortunate threat to this policy choice.
5. The principle of Diversification applies to employee share ownership as to any other financial investment. It is illustrated by the aphorism "do not put all eggs in one basket." In this light, we can also indicate that employee share plans are generally characterized by voluntary membership and by investment limits depending on the employee's remuneration level.
6. However, employee share ownership is not just a financial investment. It also has the character of an industrial investment. This character is most evident when the employees' stake reaches 100% of the company's capital, which is the typical case of employee share ownership in SMEs. However, it is also present, although more incidentally, to the minority employee share ownership in large companies.
7. If the aphorism of eggs and basket frequently applies to the diversification of financial investments, another aphorism applies better to industrial investment: "The bird lays all eggs in the same nest". By concentrating its eggs in one nest, the bird manages security by the particular care that this choice allows. So is it also for employee share ownership as an industrial investment. Employee share schemes are usually supported by communication programs and financial information and they are recognized as a powerful tool for economic and financial education, and thus, for risk control.
8. When the OECD project considers employee share ownership in its sole dimension of financial investment, omitting that of industrial investment, it makes a unilateral choice. This simplistic position ignores the complexity of employee share ownership. It is therefore inappropriate.
9. This positioning is in line with the movement of financialization that tends to obscure industrial or "real" considerations. About employee share ownership, this positioning is clearly at odds with the economic policy choices of many OECD countries that advocate a return to "real" economy considerations rather than purely financial.

10. Furthermore, if one merely has to consider employee share ownership in its sole dimension of financial investment, it is appropriate to apply the same diversification rules that apply to all forms of financial investment. There is therefore no reason to grant specific treatment as does the OECD project. This discrimination is not justified. The negative signal it sends about employee share ownership is inappropriate.

As a conclusion, the overwhelming body of evidence suggests that encouraging employee share ownership is a proven and effective means of improving the retirement security of employees. and the economy as a whole. Therefore, we urge the WPPP to recognize the benefits of encouraging employee share ownership by correcting the Draft Principles in this sense. We would be happy to provide additional information or to discuss the matter further with you.

With best regards

A handwritten signature in dark ink, appearing to read "Heinrich Beyer". The signature is written in a cursive style with a large initial 'H' and a long, sweeping tail.

Dr. Heinrich Beyer  
Managing Director AGP