

May 16, 2022

The Honorable Marty Walsh, Secretary
U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Ave NW
Washington, DC 20210

Re: Z-RIN 1210-ZA30; RFI on [Possible Agency Actions to Protect Retirement Savings from Climate-Related Financial Risks](#)

Dear Secretary Walsh,

We respectfully submit this letter in support of the Department of Labor (“Department” or “DOL”)’s work implementing President Biden’s May 20, 2021 [Executive Order](#) on Climate-Related Financial Risk that orders certain federal agencies “to protect the life savings and pensions of United States workers and families from the threats of climate-related financial risk.”

It is a pleasure to submit comments on behalf of Ceres and the [Ceres Accelerator for Sustainable Capital Markets](#). Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world’s greatest sustainability challenges. The Ceres Accelerator is a center of excellence within Ceres that aims to transform the practices and policies that govern capital markets to reduce the worst financial impacts of the climate crisis. It spurs action on climate change as a systemic financial risk—driving the large-scale behavior and systems change needed to achieve a net-zero emissions economy through key financial actors including investors, banks, and insurers. The Ceres Accelerator also works with corporate boards of directors on improving governance of climate change and other sustainability issues. For more information, visit www.ceres.org and www.ceres.org/accelerator and follow @CeresNews.

Ceres works with leading global investors and companies. Our Investor Network currently includes 221 investors that collectively manage over \$60 trillion in assets. These investors are concerned about the impact of climate change on financial assets including all types of retirement investments. Ceres is a founding partner of the global [Investor Agenda](#), the [Net Zero Asset Managers Initiative](#) and the [Paris Aligned Investor Initiative](#), which includes investors focused on sustainable investments within their portfolios and other assets. Our Company Network includes approximately 60 of the largest global companies with whom we work on climate strategy and disclosure, among other issues. BICEP, the Ceres Policy Network, includes over 75 companies, including some of the most recognizable brands, who have become leading advocates in the fight against the climate crisis at both the state and federal level.

DOL should adopt a strong final ESG and proxy voting rule

First and foremost, we encourage DOL to adopt a strong final rule, following on its excellent proposed rule, [Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights](#), 86 Fed. Reg. 57272 (October 14, 2021). The proposed rule makes clear that fiduciaries must

be permitted to evaluate all factors that impact risk and return, including climate-related financial risk. Ceres submitted detailed [comments](#) in support of this proposed rule and is eager to see it adopted.

Climate change poses grave financial risks to retirement savings (Questions 1-2)

Climate change affects nearly [all sectors](#) of the economy. Global average surface temperatures have increased by about 1.8 degrees Fahrenheit (for the period 1901-2016), driven primarily by emissions of greenhouse gasses, which should lead to more frequent and intense extreme weather events and other disruptions, according to the USGCRP's [Fourth National Climate Assessment](#). And, in fact, climate-related disasters are increasingly frequent, with a record 22 events causing over \$1 billion damage each in the US during 2020 alone, for a total cost of [\\$100 billion](#). A 2019 analysis of 215 of the world's [largest companies](#) identified just under \$1 trillion of potential risk to them from climate change – and noted that half of these losses are expected to materialize in the next five years. According to a September 2020 [advisory report to the CFTC](#), climate change could pose systemic risks to the U.S. financial system since it could affect multiple economic sectors, geographies, and assets in the United States, sometimes simultaneously and within a relatively short timeframe. As an empirical matter, [climate risks are not yet fully reflected in asset prices](#), which means the market participants and DOL would be warranted in probing further. Climate-related financial risks are especially relevant to retirement investors, who invest over decades, and are generally universal owners with exposure to many at-risk sectors.

The Government Accountability Office (GAO) outlined these risks well in its May 2021 [report](#) on Retirement Savings:

As efforts to mitigate climate change focus on curbing such emissions, certain sectors that are dependent on fossil fuels could be significantly affected by a transition to a lower-carbon economy. Additionally, some sectors are expected to suffer larger economic losses than others from direct physical effects of climate change, such as droughts or flooding. Certain sectors in particular, such as energy and transportation, may be affected by a transition toward a lower-carbon economy and away from a heavy reliance on fossil fuel energy, driven by potential changes in consumer preferences or taxes on carbon emissions...

Retirement plan investments are subject to both physical and transition risks from climate change. Physical risks from climate change can be from acute, adverse events or from longer-term shifts in climate patterns that can have financial impacts for companies, such as direct damage to company assets and indirect impacts from disruptions to supply chains, according to reporting from a stakeholder we interviewed. For example, an increase in the frequency of wildfires could damage property and hinder the operations of some companies, potentially resulting in financial losses for the companies and reduced investment returns for the retirement plans that invest in them. Transition risks from climate change stem from the possible policy, legal, technology, and market changes needed to transition to a lower-carbon economy and may pose varying levels of financial risks to companies and thereby to investment returns.

According to a [report from Trucost, a subsidiary of S&P](#), “Almost 60% of companies in the S&P 500 and more than 40% of companies in the S&P Global 1200 hold assets at high risk of physical climate change impacts. Wildfires, water stress, heatwaves and hurricanes (or typhoons) linked to increasing global average temperatures represent the greatest drivers of physical risk. Regulatory transition risk, as represented by carbon pricing risk, is greatest in the Australia and US market benchmarks, linked in part to the high degree of action needed to shift comparatively weak carbon pricing policies to deliver on climate change goals.”

Retirement plan fiduciaries can take steps to manage this risk

Climate-related financial risks are especially relevant to retirement investors. While climate change is already having a financial impact, [realistic scenarios](#) such as a 3 degree Celsius temperature rise by 2100 would cause increasingly severe financial harm. (In a moderate emissions scenario that features little change from today’s global-development patterns, for instance, average global temperatures will rise by 2.1–3.5 °C, according to the [IPCC report](#).) Some of today’s young retirement savers, and many of their children, who may also be plan beneficiaries, will at that time be collecting benefits, whose value will be directly impacted by climate change. The duty of impartiality necessitates that fiduciaries consider these risks alongside the short term concerns of those whose retirement is imminent. It is industry best-practice to encourage diversification in retirement portfolios. The negative externalities generated by heavy GHG emitters are borne by many other companies in such a portfolio. If fiduciaries do not assess and mitigate climate risk in their portfolios today, tomorrow’s retirees will pay the price.

In addition to risk assessment and mitigation, DOL should encourage retirement plan sponsors and participants to take advantage of their rights as shareholders to engage with the companies they own, and to publicly report on their proxy voting. DOL should also issue guidance to recordkeepers, administrators, and asset managers that they should ensure sponsors and participants are given the tools to exercise those rights, as such tools are generally lacking in the market today. Shareholder initiatives on climate are becoming [more prevalent](#) as investors increasingly recognize the financial benefits of strong engagement.

EBSA should conduct a survey of plan sponsors and work over time to formalize disclosure requirements on climate-related financial risk (Questions 3-7)

Many investors and stakeholders in the capital markets recognize the materiality of climate risk and have taken steps to mitigate the risks in their portfolios and take advantage of the opportunities created by the transition of our economy. Asset managers with \$57.5 trillion under management are signatories of the [Net Zero Asset Management Initiative](#). A September 2020 [report](#) from a federal advisory committee to the U.S. Commodity Futures Trading Commission (CFTC) found that “considering risks from climate change is consistent with fiduciary duty for those managing retirement plan investments.” They recommended that retirement plans, and the companies in which they invest, include climate change scenario analysis in their risk management strategies. Plans should consider their exposure under scenarios in which global temperature rise is held to the goals of the Paris Climate Agreement, and in other scenarios in which temperatures rise above and below this goal.

The aforementioned GAO report provides these examples: “In 2019, for example, the California Public Employees’ Retirement System (CalPERS) reported that 20 percent of the assets in its portfolio are in economic sectors that are most exposed to climate change-related risks. Additionally, in 2015, the New York State Common Retirement Fund released a report assessing the climate change-related risks facing its portfolio that found, among other things, the plan’s stock portfolio was particularly exposed to climate change-related risks compared to the other types of assets held by the plan.”

To mitigate this risk, it must first be understood and measured. To this end, we recommend that EBSA conduct a survey of plan sponsors and their advisers with regard to climate risk in their portfolios. The survey should differentiate between defined benefit (DB) and defined contribution (DC) plans. Such a survey could include questions such as:

- Do you assess the climate risks and opportunities in your plan? Do you run climate scenario analyses? If so, over what timeframe, and what metrics do you track? Please describe your methods and provide recent test results.
- Do your policy statements include management of climate financial risk, or guidance on shareholder engagement and proxy voting? If so, please provide the text of that policy.
- Do you utilize a standard reporting framework, such as TCFD?
- What steps have you taken to mitigate climate risk?
- What steps will you take in the next year?
- For DC plans, do you provide fund options that allow interested participants to minimize this risk? What educational resources on climate-related financial risk are provided to participants?

Given plan sponsors’ concerns about legal liability, we further recommend that DOL keep the individual results of this initial survey private. In addition we recommend DOL assure respondents that their submissions will not be used as the basis for enforcement action and that DOL consider actions that would protect them from private litigation. DOL could publish an analysis of the aggregate findings and consider recommendations to plan sponsors as a result of these findings. Ceres recommends that the initial survey be limited to the largest plans, for example DC plans with over \$100 million in assets (this would cover just under 5000 of the more than 55,000 DC plans captured in the [Brightscope universe](#) of 401k plans), and a similar subset of the larger DB plans. Subsequent surveys could apply to a larger universe of plans, and a plans’ second or third survey responses could be made public, once the Department and plan sponsors have had the opportunity to fine-tune the process.

The Pension Benefit Guaranty Corporation could provide incentives to encourage management of climate-related financial risk

DOL could provide incentives to plans to conduct climate-related financial risk assessments. For example, DOL could explore the possibility of having the Pension Benefit Guaranty Corporation (PBGC), which insures private DB plans, offer a reduction in premiums to plans that measure and report on their climate-related financial risk. There is solid economic grounding to provide such an incentive, as this will reduce the risk PBGC bears in insuring against plan shortfalls.

Proposed SEC climate disclosure rulemaking will provide essential information for plan fiduciaries

The current proposed rule on climate disclosure from the SEC, [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#), would require issuers to disclose information on their climate-related risks and GHG emissions in financial filings. This data will be a critical input to plan-level reporting and risk analysis because funds require more accurate and consistent information than is currently available to assess climate risks in their portfolios. We understand that the SEC is also considering a proposal of fund-level ESG [disclosure](#) rules. Together with the proposed issuer disclosure rules, these rules would ensure a much greater level of transparency about climate risk in investment funds and the securities they hold. While there are many private-sector data providers and ratings systems designed to arm investors to make better decisions on climate risk, we believe the lack of trustworthy, consistent issuer and fund-level data impairs these efforts. We encourage DOL to coordinate with the SEC to ensure that funds' and issuers' disclosures will allow plan sponsors to assess and disclose aggregate climate-related financial risk in their portfolios. For investment products, proposed disclosure requirements from the [CEA Institute](#) provide a good starting point for these disclosure rules. Once these SEC rules are finalized, Ceres recommends that DOL consider updating its plan-level reporting requirements to include aggregate GHG emissions and other climate-related financial data in line with the data required by the SEC.

Ceres does not recommend that DOL require new climate-related disclosures in the Form 5500 at this time, but rather that the Department consider such enhancements after conducting a survey, as outlined above. DOL may also wish to consider new data that will become available pursuant to any final SEC rules on issuer and fund disclosures.

Through its oversight responsibilities, EBSA should encourage the Federal Retirement Thrift Investment Board (FRTIB) to evaluate and manage the climate-related financial risks in the Thrift Savings Program (TSP) (Questions 9-16)

TSP equity funds, as defined by the Federal Employees' Retirement System Act of 1986 (FERSA), Public Law 99-335, 100 Stat. 514, as amended, are invested across the entire economy. For example, the [C Fund](#), the largest of the five TSP funds with \$269 billion in AUM, follows the S&P 500 index. According to [research](#) from S&P Global, "60% of S&P 500 companies, with a market capitalization of \$18 trillion, hold assets that are at high risk of at least one type of climate-related physical event." Accordingly, most TSP investors bear both the transition risk of the largest greenhouse gas emitting companies and the physical climate risks throughout their portfolio that these emitters exacerbate.

Per 5 U.S.C. 8477(b), the FRTIB must use the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent individual acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like objectives." Sophisticated institutional [investors](#) recognize and are addressing climate-related financial risk as a bedrock principle of capital preservation and growth. According to the [Government Accountability Office](#) (GAO), "With the exception of TSP, the five largest global retirement plans, with assets under management ranging from \$462 billion to \$1.4 trillion, are signatories of [PRI](#)." In its response to the GAO report, the FRTIB states that because it uses a passive index strategy, risk limits do not apply, and argues that its hands are effectively tied by statute. However, the FRTIB has a fiduciary duty to

act in its participants' best interests, and there are actions that can be taken that are consistent with the provisions of FERSA.

DOL should work with FRTIB to conduct analysis of the climate-related financial risk in the TSP

On behalf of the over 6 million Americans who participate in the plan, FRTIB should conduct an assessment of the risks to the TSP posed by climate change to enhance its risk management and assist in protecting the life savings of federal workers. This assessment should include climate scenario analyses, where portfolio performance is estimated under various temperature rise scenarios. Much has been written on how to conduct portfolio climate risk assessments. Ceres and Impax Asset Management published this series of [case studies](#) on evolving best practices in climate risk management. CalPERS published this [Approach to Addressing Climate Change Risk](#), which drew on over one thousand peer-reviewed academic papers to develop its methodology. In their report [The Role of Climate Change Scenarios In Investment Portfolios](#), GIC, the world's fourth largest sovereign investor with \$744 billion, a size comparable to TSP, said, "For long-term investors like GIC, climate change is a key concern given its imminent impact on the value of physical assets and companies over time. Hence factoring this into both our top-down and bottom-up processes is vital to ensuring a resilient portfolio." ETH Zurich published an instructive paper, [Taming the Green Swan: How to improve climate-related financial risk assessments](#), which discusses many of the tools and methodologies for assessing climate-related financial risks. These tools have been created and employed by prudent, sophisticated investors managing large retirement plans. Fiduciary duty compels FRTIB to assess and manage the climate-related financial risks in the TSP.

DOL should work with FRTIB to ensure its fund managers use active stewardship to protect its participants from climate risk

Active stewardship is a critical part of a fiduciary process, and can and should be employed even in an index fund, as it has been shown to [reduce](#) downside risk. TSP participants are significant shareholders of every large public American company. As such, they can collectively influence the actions and decisions taken by these portfolio companies and push for more disclosure of climate risk and bolder action to mitigate it. Although FRTIB is constrained by FERSA in directly voting its shares, it would not be inconsistent with FERSA for FRTIB to express a preference for how proxy voting should be exercised by one of the TSP's asset managers. Many large asset owners, including CalPERS and other public pension funds, have proxy voting and engagement [policies](#) that they share with their asset managers. Institutional investors are [increasingly](#) aligning their proxy voting with climate concerns. FRTIB's fiduciary duty to act in its participants' best interests compels it to review the proxy guidelines employed by its managers to ensure that they vote TSP shares in a way that minimizes climate-related financial risk, and any other risks, to the plan as a whole. EBSA could play a key role in catalyzing this action through its oversight authority.

DOL should encourage FRTIB to update the indices used in its funds

As investors recognize the significant shifts underway in our economy, the TSP runs the risk of being the holder of last resort. Climate concerns and other ESG risks will be a significant driver of investment risk and return for the foreseeable future. As with any factor, performance of ESG funds

will vary, but an analysis of 11,000 mutual funds over 14 years showed that [ESG funds had lower downside risk and equivalent returns](#) to the broader market.

While FERSA imposes certain constraints on index selection, the FRTIB does have latitude. For example, although 5 U.S.C. 8438 (4) states that the international fund should be based on “a commonly recognized index comprised of stock the aggregate market value of which is a reasonably complete representation of the international equity markets excluding the United States equity markets,” that fund is based today on the MSCI EAFE Index, a developed markets index, and therefore excludes all emerging market equities. FRTIB has considered changing that index to include emerging markets, and would not require an amendment to FERSA to do so. Similarly, FRTIB should conduct a review of alternative broad market indices that better reflect climate-related financial risks and opportunities, and evaluate them as alternatives for its [C. S. I. and F Funds](#).

EBSA can take a leadership role in providing guidance to the retirement industry on best practices in managing climate-related financial risks, and provide educational materials for individuals and their financial advisors (Questions 20-22)

As discussed previously, Ceres strongly supports the proposed SEC rulemaking governing climate-related disclosures of issuers and the SEC’s planned rulemaking on funds. This work will lay the foundation for better decision-making at all stages of the investment process. Plan sponsors and other fiduciaries need data on climate-related financial risks, including GHG emissions, to make sound decisions on portfolio construction and fund inclusion. Stronger fund disclosure and naming rules will be particularly valuable for individuals who are selecting funds from a plan lineup. EBSA should collaborate with the SEC on these fund disclosure and naming efforts to ensure that the significant portion of Americans whose savings are largely through retirement plans are best informed and protected in their decisions.

Ceres also recommends that EBSA commission a workgroup of retirement experts from the advisory, academic, regulatory and asset management communities. This workgroup could publish papers on best practices in climate-related financial risk management for retirement plans. This guidance would address the special relevance that climate-related financial risks have for retirement investors, who invest over decades, and are generally universal owners with exposure to many at-risk sectors. It would also include guidance on shareholder engagement for retirement plan sponsors. Specific considerations should be addressed for the various plan types including DB and DC plans and the range of IRA structures in the market. This workgroup would also create training materials on financial risks of climate change for financial advisors (for both institutional and individual clients) that they would be required to complete as part of their continuing education. The workgroup would also author or commission succinct, informative educational materials for individual investors that would be provided to all DC plan participants and those opening IRA accounts.

Several states have implemented innovative new auto-IRA programs designed to provide retirement security for those not covered by other plans. State and local governments also administer pension plans for their employees. Ceres recommends that EBSA hold a convening of state and local treasurers, comptrollers, retirement board fiduciaries, including members of the [National Association of State Retirement Administrators](#), and others involved in administering these plans to

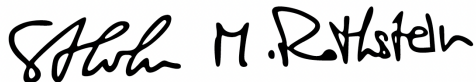
share information and best practices on how climate risk might be factored into plan governance, and ensure that these officials have access to resources and industry best-practices.

Climate aligned investing will reduce unpriced risk, create jobs, and generate wealth


The physical risks of climate change present a minefield for fiduciaries to navigate. The transition to a net-zero economy will require nearly every industry to be redesigned and rebuilt, resulting in many stranded assets. But this transition also presents generational wealth and job creation opportunities. DOL can play a pivotal role in equipping plan sponsors and participants to make sound decisions incorporating climate-related financial risks and opportunities in their decision making.

Thank you again for your leadership on this critical issue. Ceres appreciates the Department's consideration of our views, and we look forward to our continued collaboration.

Sincerely,



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