In response to the Department of Labor’s proposal to amend the 1974 Employee Retirement Income Security Act, we at CountryRisk.io express our support for the Principles of Responsible Investment’s request for an extension of the consultation period.

Through our many years of experience in the sovereign bond market, we firmly believe that a holistic understanding, not only in sovereign bonds, but in all asset classes, requires material ESG factors to be integrated into the risk analysis.

Support for this view is accelerating too, as evidenced by the fact assets managed by funds that incorporate ESG strategies grew 58% in Europe last year, according to Morningstar and saw a fourfold increase in the US – with flows into US sustainable funds reaching $20.6 billion.

This scale and pace of growth eliminates any suggestions that ESG is a fad. Simply put, ESG is prudent risk management; due diligence carried out to future-proof and protect returns from a myriad of material risks waiting on the horizon. That’s why regulators in leading markets around the world are moving forward with requirements that investment fiduciaries consider ESG factors. Secretary Scalia’s failure to recognise would be a major backwards, derailing the progress that has been made in recent years.

In fact, in Secretary Scalia’s own proposal, the DOL acknowledges explicitly that ESG factors can create business risks and opportunities, and evidence is
incontrovertible that climate change will have a material impact on our economy and on asset prices. This makes the DOL’s attempt to limit ESG integration extremely short-sighted.

COVID-19 has plunged the global economy into the worst recession since World War II. The regulatory and legislative actions nations take now will have dramatic ramifications in the near- and long-term future for asset classes. Amid so much uncertainty, a premium must be placed on ESG integration and risk management to eliminate blind spots.

If the current DOL proposal is approved, it will row the US backwards just when the waters are at their choppiest.

Sincerely,

Jenny Asuncion and Bernhard Obenhuber
Managing partners at CountryRisk.io