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Financial Factors in Selecting Plan Investments

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General Comment

The proposed rule suggests that under the obligations of pension plan operators, ESG investments would only be permissible to the extent that professional investment advisers would consider ESG factors to have a material impact on risk and return. This should be clarified to include the potential for increasing need to address environmental considerations such as Greenhouse Gas (GHG) emissions through stricter controls and reduction of fossil fuel use which contributes to climate change. It is clear that issues such as climate change may have a material impact on resource use and regulation. Global temperatures are rising at an accelerating rate. The global average temperature in 2018 was about 1.0°C more than pre-industrial levels. Increased concentration of carbon dioxide (CO₂) in the atmosphere – due to the burning of fossil fuels – is a primary driver of this temperature rise. Warming greater than the global average is occurring in many regions, including the Arctic, where it is rising two to three times quicker. Warming has also happened twice as fast over land than over the ocean.

Studies of gas composition inside ancient Arctic and Antarctic ice cores reveal that something as complex as global temperature can be related to just a single variable – the level of atmospheric CO₂.² In fact, for roughly 800,000 years, until about 150 years ago, CO₂ levels and temperatures have varied together

Sources: Jouzel et al. (2007), Lüthi et al. (2008), National Centers for Environmental Information (NCEI), National Environmental Satellite, Data, and Information Service (NESDIS), National Oceanic and Atmospheric Administration (NOAA), and US Department of Commerce.

The lowest CO2 levels consistently corresponded with the ice ages, while higher levels coincided with stable temperate periods, including the 12,000 years since the last ice age, when our civilisation developed. If we add the last 150 years of atmospheric carbon levels to this ice core data, we see a sharp upward break in atmospheric CO2 levels

The standard should thus be, not that investment professionals regard an issue affecting the investment options as having a material effect, but that

PROPOSED STANDARD FOR ESG INVESTMENTS

"it is reasonably likely that an ordinarily prudent person, considering all the available information and best scientific studies, would regard the environmental, social, or legal and justice issues associated with the proposed investments as likely to affect the future economic and financial outlook of the investment." This would include the prospects for future regulation, future mitigation requirements, future social and legal risks, and potential de-risking effects of investment in a particular sector or investment considered as part of a balanced portfolio."