29 July 2020

Office of Regulations and Interpretations
US Department of Labor
Room N-5655
200 Constitution Avenue NW
Washington, DC
20210
Online submission - https://www.regulations.gov/comment?D=EBSA-2020-0004-0002

Dear Secretary Scalia,

RE: Proposed rule on Financial Factors in Selecting Plan Investments (RIN 1210-AB95)

The Global Reporting Initiative (GRI) respectfully submits the following comments on the Department of Labor's proposed rule, "Financial Factors in Selecting Plan Investments" (RIN 1210AB95).

GRI is an international, nonprofit standard-setting organization that helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. The [GRI Sustainability Reporting Standards] (GRI Standards) enable real action to create social, environmental and economic benefits for everyone as they are developed with multi-stakeholder contributions and rooted in the public interest. The GRI Standards are the world's first and most widely adopted global standards for sustainability reporting with more than 10,000 reporting organisations globally.

The practice of disclosing sustainability information inspires accountability, helps identify and manage risks, and enables organizations to seize new opportunities. Reporting with the GRI Standards supports companies, public and private, large and small, to protect the environment and improve society, while at the same time thriving economically by improving governance and stakeholder relations, enhancing reputations and building trust. The GRI Standards help companies disclose relevant ESG information that support decisions in the best interest of investors and society at large. The integration of ESG data into decision-making is core to fiduciaries' duty of loyalty and duty of prudence.

The GRI Standards encourage reporting on issues beyond those that might be financially material within the time horizon of the traditional investor. Given the dynamic nature of financial materiality (as demonstrated during the COVID-19 crisis, where issues that were perhaps not regarded as financially material before the crisis, emerged as being very material during the crisis) we believe it is important to add our voice to those raising concern about the proposed rule change. Specifically, we are concerned about the potential dampening effect this proposal may have on the ability of plan fiduciaries to consider relevant environmental, social and governance (ESG) issues in their investment decision-making.

Retirement plan fiduciaries are required to invest so as to ensure they are able to meet both current and future claims. This entails the consideration of both short-term and long-term factors that may impact on the performance of funds. There is by now a wealth of research showing that the integration of ESG factors in investment analysis and decision-making can help maximize long-term returns and minimize losses. As just one example, a review of approximately 2200 studies of corporate performance found that 63% of them demonstrated that better ESG performance was associated with higher value creation (Friede et al., 2015). Recent Morningstar research (July 2020) is even more emphatic, arguing that *"the long-term profitability of any investment can be undermined by unmanaged ESG*

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risks, which means that considering these risks cannot be a tick-the-box exercise. Because ESG risks are relevant for long-term investing, they should be considered as part of security analysis. Failing to do so can lead to an overestimation of a security's fair value. And financial advisers need to ensure their clients understand ESG risks just as they explain the way factors like interest-rate risk, default risk, currency risk, stock market risk, or sector-concentration risk could affect their investments." We argue that the growing flow of investment funds into ESG-aligned investments is demonstrative of the increasing recognition of the relevance of ESG factors for investment decision-making. Finally, the Department of Labor itself notes in its proposal that it can envisage instances where ESG factors *"will present an economic business risk or opportunity that corporate offices, directors and qualified investment professionals would appropriately treat as material economic considerations under generally accepted investment theories".*

It is therefore unsurprising that - in response to this evidence base - there is a growing demand from investors for more, not less, disclosure on sustainability issues to enable them to better understand and manage the possible risk and return associated with their investment choices. Indeed, the Department will be aware of the recent (May 2020) recommendation from the Investor as Owner Sub-Committee of the Securities and Exchange Commission (SEC) Investor Advisory Committee to the SEC to *"update the reporting requirements of Issuers to include material, decision-useful, ESG factors".*

Finally, it is perhaps also worth noting that this proposed rule change puts the United States at odds with other jurisdictions that formally recognize the investor-relevance of ESG information. For example, the newly revised UK Stewardship Code (2020) notes that "*(e)nvironmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions*". The European Commission meanwhile, is in the process of reviewing its Non-Financial Reporting Directive as part of its *"strategy to strengthen the foundations for sustainable investment".*

Given these factors - the large body of evidence that proper consideration of ESG information helps protect investors and the emerging international consensus around this point - we join with our colleagues at the Sustainability Accounting Standards Board (SASB), Ceres and US SIF (to name just a few) to call for the withdrawal of the proposed rule.

Sincerely,

Tim Mohin, CEO
Global Reporting Initiative