



Response to Employee Benefits Security Administration's Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate Related Financial Risk (**Document Number:** 2022-02798)

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1. Please provide your views on how EBSA should address and implement the action items set forth for EBSA in Executive Order 14030 on Climate-Related Financial Risk. Specifically, what agency actions can be taken under ERISA, FERSA, and any other relevant laws to protect the lifesavings and pensions of U.S. workers and families from the threats of climate-related financial risk?

Many climate-friendly investment funds are new, and do not have the 3-5 year track record that retirement plan fiduciaries often look for when assessing new funds to add to retirement plans. As we at Sphere have launched a climate-friendly passive index fund within the past year and have discussed adding it to retirement plans with many plan fiduciaries, we have found inconsistencies in how fiduciaries address their requirements for a 3-5 year track record. Some waive the requirement for funds that are not actively managed, if there is an independently-calculated 10-year back-test on the index that they can use to calculate risk and return parameters. Others apply the same 3-5 year requirement regardless of whether a fund is actively or passively managed. If EBSA were to address this inconsistency, it could open the door to far more climate-friendly investment options becoming available in retirement plans on a shorter time frame than otherwise would be possible. This step could be critical in enabling retirement plans to adopt climate-friendly investment options within the time scale that enables avoiding surpassing 1.5°C of warming in seven years

2. Executive Order 14030 uses the phrase "climate-related financial risk" to encompass a wide variety of risks under two broad categories: physical risks and transition risks. What are the most significant climate-related financial risks to retirement savings and why?

If regulations are put in place limiting the amount of fossil fuels that can be extracted and burned globally, those regulations could negatively impact the share prices of equities in the fossil fuel sector across the supply chain (not only major holders of fossil fuels). The 7-year time frame that remains to limit warming to 1.5°C, as recommended by the Intergovernmental Panel on Climate Change (IPCC), requires these types of regulations to be put in place, to avoid the worst effects of climate change. The risk is therefore high that investment exposure to the fossil fuel sector could result in financial losses to retirement plan participants. This was likely a factor in the decision-making that led to large investors such as the Harvard endowment (\$50B), State of New York pension fund (\$200B), and University of California system endowment (\$30B) and pension fund (\$90B), divesting from the fossil fuel industry. It is our opinion that all retirement plan participants should be protected from this risk.