

May 16, 2022

Mr Ali Khanwar  
Acting Assistant Secretary  
Employee Benefits Security  
Administration Department of Labor

Submitted via electronic filing: [www.regulations.gov](http://www.regulations.gov)

**Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk (Z-RIN 1210-ZA30) (“Request for Comments”)**

Dear Mr Khanwar,

MSCI welcomes the Request for Comments to identify agency actions that can be taken under the Employee Retirement Income Security Act of 1974 (ERISA), the Federal Employees’ Retirement System Act of 1986 (FERSA) and other relevant laws to protect the life savings and pensions of United States’ workers and families from the threats of climate-related financial risks.

MSCI supports the proposed rule, by the Department of Labor (DOL) which closed for consultation in December 2021, that helps clarify that ERISA does not prohibit fiduciaries from making investment or proxy voting decisions that reflect material ESG considerations.<sup>1</sup> We await the final rules which would be a key enabler to protect the life savings and pensions of workers from the threat of climate-related financial risks. ESG integration<sup>2</sup> is a transitional step to full incorporation of ESG considerations embedded as a core component of standard security selection, portfolio construction and risk management practices. This is a permanent change to how investment strategies will be constructed and how investments will be allocated and managed. Investors have become more sophisticated in their thinking about climate risks and willing to incorporate other dimensions alongside reducing exposure to carbon stranded assets. These dimensions include capturing opportunities and encouraging companies to develop climate-resilient business models.

While the Request for Comments cover a range of issues, we comment only on those matters where we believe MSCI’s expertise and experience are most relevant. The responses to Question 7 and 15 pertaining to ERISA fiduciary duties and TSP’s offering relying on passive index investing under FERSA respectively, are given below.

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<sup>1</sup> [Regulations.gov](http://www.regulations.gov) MSCI Comment RIN 1210-AC03

<sup>2</sup> [The MSCI Principles of Sustainable Investing](https://www.msci.com/principles-of-sustainable-investing).

## ERISA fiduciary duties

MSCI agrees that there is an increased number of metrics and tools that allows for additional analyses of investments that gives ERISA plan fiduciaries more information to make decisions on climate-related financial risk factors in evaluating the various investment choices that are available to make. Portfolio alignment tools can inform portfolio-level target-setting frameworks and help asset owners measure and manage toward the achievement of climate-related targets, given their unique portfolio composition. We support the recent work by the TCFD Portfolio Alignment Team (PAT) on design judgments for portfolio alignment tools.<sup>3</sup> Forward-looking metrics, as recommended by the TCFD, are establishing new possibilities for assessing future risks but their acceptance will rely on transparency on the underlying assumptions.

Research on how markets have been pricing externalities related to climate change is nascent, due in part to a short history of consistent data. In our research paper, 'The Foundations of Climate Investing: How Equity Markets Have Priced Climate Transition Risks', we analyzed data over a seven-year study period and found that in developed markets outside the US, more carbon-efficient companies experienced stronger stock price performance.<sup>4</sup> We expect investors to increase the depth of their analysis on how companies are adapting to address climate risks and opportunities, which makes timely, consistent and comparable climate disclosure by companies essential. It is correct to state that the coverage and quality of underlying data is a key challenge and MSCI continues to make representations and recommendations globally for this to be addressed with utmost urgency.<sup>5</sup> However, we agree that this should not delay or prevent plan fiduciaries from actively assessing the climate risks and opportunities of their portfolio. MSCI continues to assist asset owners and managers with tools to support this assessment through tools such as:

- i. **The MSCI Climate Value-At-Risk (Climate VaR) model**, which provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations.
- ii. **The MSCI Low Carbon Transition Score**, which is built to assess current and potential exposure to transition risks & opportunities through both companies' operations & business model.
- iii. **MSCI's Implied Temperature Rise (ITR)**<sup>6</sup> which allocates an emissions budget to companies under a 2°C warming scenario. Future emissions trajectories are then projected based on publicly disclosed targets by companies. Emissions over/undershoot is benchmarked against a 2°C scenario, and ultimately converted into a temperature measure.

## Passive Index Investing

The Thrift Savings Plan (TSP) provides a selection of funds that passively track an index which an investor can choose to have their retirement dollars invested in. We understand that currently the Common Stock Index Fund (C Fund) and International Stock Index Investment

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<sup>3</sup> [TCFD – Measuring Portfolio Alignment Technical Considerations](#)

<sup>4</sup> MSCI. 2021. [Foundations of Climate Investing](#)

<sup>5</sup> [MSCI response to SEC Climate Change Disclosures; MSCI response to IOSCO consultation paper on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management](#)

<sup>6</sup> [Implied Temperature Rise - Designed to show the temperature alignment of your investments with global temperature goals.](#)

fund (I Fund) functions to match the performance of different indexes, however, currently the indexes may or may not incorporate specific objectives related to emission reductions and the transition to a low-carbon economy through the selection and weighting of underlying constituents. MSCI has been at the forefront of index construction and maintenance for more than 50 years, launching its first global equity indexes in 1969. The MSCI Climate Change Indexes consider both the opportunities and risks associated with transition to a low carbon economy, enabling institutional investors and wealth managers to integrate climate risk considerations in their global equity investment process. The indexes are designed to exceed the minimum requirements of the EU Climate Transition Benchmark minimum requirements. The methodology uses the MSCI Low Carbon Transition<sup>7</sup> (LCT) score and category to reweight constituents of a parent index to increase its exposure to companies participating in opportunities associated with transition and decrease its exposure to companies exposed to risks associated with transition.

The index applies a heuristics-based approach in order to meet the following objectives:

**i. Reduce Emissions**

- A minimum of 30% reduction in Greenhouse Gas (GHG) Intensity Scope (1+2+3)
- Potential emission intensity 30% lower
- Neutral exposure to high impact sector
- Incentivize companies setting targets

**ii. Green Opportunities**

- Increases weight in companies which see opportunities from climate transition
- 3x category tilt score for companies in Solutions LCT Category (green companies) to the parent index

**iii. Decarbonization**

Annual decarbonization at 7% starting June 1st 2021 (base date)

MSCI believes that climate-related risks pose a potential threat to the long-term resilience of investment portfolios and using all tools available to investors, and in particular equity and fixed income indexes, may become even more relevant. There is an array of Climate Change Indexes which are made available by MSCI to meet investor needs.<sup>8</sup>

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s/

**Lisa Keet**

**Executive Director, Government and Regulatory Affairs**

**MSCI Inc.**

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<sup>7</sup> [MSCI ESG Climate Change Solutions](#)

<sup>8</sup> [Climate Change Indexes](#)