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PENSION ISSUES

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Department of Labor Proposes New Rule on Retirement Plan ESG Investing and Shareholder Rights

On Wednesday the U.S. Department of Labor (DOL) announced the proposed rule *Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights*. The proposed rule would remove barriers to plan fiduciaries in considering climate change and other environmental, social and governance (ESG) factors when selecting investments and exercising shareholder rights. The proposed rule, according to DOL, was issued under the principle that climate change and other ESG factors can be financially material and that considering them will lead to better long-term risk-adjusted returns. Language included in the proposed rule stipulates that ESG factors and other "collateral benefits" like social good serve as a "tiebreaker" when a fiduciary is selecting between economically indistinguishable investment options.

The proposed rule will also remove special rules for Qualified Default Investment Alternatives (QDIAs) included in a 2020 Trump Administration rule *Financial Factors in Selecting Plan Investments* and removes barriers in the exercise of proxy voting brought about by another Trump Administration rule, *Fiduciary Duties Regarding Proxy Voting and Shareholder Rights*. In a clear indication of intent to reverse these prior rules, in May of this year, President Biden issued an Executive Order on Climate-Related Financial Risk directing federal agencies to assess and mitigate financial risks related to climate change.

Public comments on the proposed rule must be submitted no later than December 13, 2021.

If you have any questions regarding this ***Academy Alert***, please contact Philip Maguire, pension policy analyst (maguire@actuary.org; 202-785-7865).