October 20, 2026

ELECTRONIC SUBMISSION

Attn: Justin R. Karlin
Internal Revenue Service
CC:PA:01:PR (CC-00349938-26)
Room 5503
P.O. Box 7604, Ben Franklin Station
Washington, DC 20044

Re: Guidance on Eligible Investments for Trump Accounts, Docket No. IRS-2026-1090-0001, RIN 1545-BS14

Dear Mr. Karlin:

We respectfully submit these comments in support of the proposal by the Department of the Treasury and the Internal Revenue Service (IRS) to treat investment funds that track environmental, social, and governance (ESG) indices as ineligible investments for Trump Accounts during the statutory growth period. The proposal rightly recognizes that these accounts were created to build wealth for children and should be organized around broad diversification, low costs, and long-term financial returns, rather than political or social preferences.

Treasury and the IRS should finalize proposed § 1.530A-3(e)(3), with the targeted clarifications described below. The rule should preserve the line between market-replicating index funds and funds that intentionally narrow the investable universe to advance environmental, social, or governance objectives. Such a rule would preserve the financial purpose of Trump Accounts while leaving families free to pursue other investment strategies outside the statutory constraints Congress placed on these accounts. As discussed in Part II, this approach is well supported by peer-reviewed financial research showing that constraining a portfolio by ESG criteria cannot improve—and can only maintain or lower—the best attainable risk-return tradeoff; that stocks shunned by ESG investors have historically earned, and are theoretically expected to earn, higher returns; and that funds marketed on sustainability criteria have not delivered superior risk-adjusted performance.

I. The Proposed Rule Properly Centers Trump Accounts on Long-Term Wealth Creation

Congress designed Trump Accounts as a long-duration savings and investment vehicle for children. During the growth period, account funds may be invested only in an "eligible investment": a mutual fund or exchange-traded fund that (1) tracks a qualified index, (2) does not use leverage, (3) charges no more than 0.1 percent in annual fees and expenses, and (4) satisfies any additional criteria the Secretary of the Treasury determines appropriate. A qualified index is the S&P 500 or another all-equity index composed primarily of U.S. companies, and it may not be industry- or sector-specific.[1] Those requirements reveal the investment philosophy Congress chose: Trump Accounts are not vehicles for active management or speculation, but for low-cost, passive exposure to broad segments of the U.S. equity market.

[1] U.S. Department of the Treasury and Internal Revenue Service, "Guidance on Eligible Investments for Trump Accounts," 91 Fed. Reg. 54280, 54281 (Aug. 21, 2026), https://www.federalregister.gov/documents/2026/08/21/2026-17123/guidance-on-eligible-investments-for-trump-accounts; 26 U.S.C. § 530A(b)(3).

The proposed regulations preserve that framework while addressing practical questions that arise in administering index funds. Among other requirements, eligible funds must seek to replicate a qualifying index rather than outperform it, must avoid leverage that materially increases the risk of loss, and must remain under the statutory fee ceiling. Proposed § 1.530A-3(e)(3) would disqualify any fund tracking an index that "has, or is marketed as having," a focus on environmental, social, or governance factors, as well as any fund marketed or sold as having an objective of tracking such an index.[2] The preamble explains that such funds "limit exposure to companies" in a manner that makes them similar to the industry- and sector-specific funds Congress itself excluded. That reasoning is sound: an index that removes or underweights companies on the basis of nonfinancial criteria departs from broad-market exposure just as surely as an index confined to a single sector.

This approach is appropriate for accounts whose beneficiaries are minors and whose investment window can span nearly two decades. A child's account should not become a vehicle for asset managers to express preferences unrelated to financial value. The rule does not prevent families from supporting environmental or social causes outside the account. Nor does it prevent fund managers from considering information that is financially material to a company's expected cash flows, risk, or valuation. It simply keeps a government-created federal program focused on its financial purpose.

Trump Accounts are designed to give children passive exposure to broad U.S. economic growth, not to turn their seed capital into a vehicle for pursuing environmental or social-policy objectives. A broad market index gives beneficiaries ownership across the economy, whereas an ESG index intentionally reweights or excludes companies using nonfinancial criteria. Publicly seeded children's accounts should track the productive American economy rather than allow financial intermediaries to decide which lawful industries or business models deserve capital. Treasury is therefore justified in asking why beneficiaries should bear departures from the broad-market benchmark that are undertaken to achieve objectives other than financial risk and return.

The proposal also reflects the distinction between voluntary investment freedom and federal compulsion that should guide economic policy. Adults investing their own money should be free to purchase ESG funds or any other lawful investment products. But Trump Accounts are subject to limitations Congress imposed because of the distinct purpose and structure of the program. Preventing an ESG index from qualifying does not prohibit ESG investing generally. It ensures that Trump Accounts do not subordinate the beneficiary's long-term financial interest to a political objective the beneficiary never selected.

II. ESG Screens Can Reduce Diversification and Impose Opportunity Costs Without Providing Reliable Financial Benefits

A central justification for Treasury's approach is that the empirical evidence does not establish that ESG screening reliably improves a beneficiary's risk-adjusted investment performance. To the contrary, a substantial body of peer-reviewed research—published in the field's leading journals—indicates that ESG constraints are more likely to lower expected returns than to raise them.

A. Constraining the Investable Universe Cannot Improve the Attainable Risk-Return Tradeoff

An unconstrained broad-market index gives investors access to the full market opportunity set. An exclusion or weighting rule narrows or reshapes that exposure. Such a constrained portfolio may

[2] Id. at 54284 (proposed 26 C.F.R. § 1.530A-3(e)(3)); see also id. (preamble discussion of proposed § 1.530A-3(e)(3)).

prove harmless, or may even outperform the market in a particular period. But the screen cannot create investment opportunities that were unavailable to the broad-market portfolio; it can only leave the attainable risk-return set unchanged or narrow it. An ESG index starts with that opportunity set and removes or reweights companies according to nonfinancial screens. Adding these constraints cannot expand the efficient set available to an investor.

Leading financial economists have formalized this point. In a 2021 article in the Journal of Financial Economics, Lasse Heje Pedersen, Shaun Fitzgibbons, and Lukasz Pomorski derive an "ESG-efficient frontier" that identifies the highest Sharpe ratio attainable at each level of portfolio ESG score.[3] Their framework makes the tradeoff explicit: requiring a portfolio to achieve a higher ESG score than the market can only maintain or reduce its highest attainable Sharpe ratio, and the magnitude of the cost depends on how much genuine information about future returns ESG scores contain. Where ESG scores carry little such information, the constraint is simply a cost. Treasury therefore should not presume that adding a nonfinancial screen makes a portfolio financially superior.

Recent out-of-sample evidence suggests that ESG scores carry little such information. A 2025 study by researchers at Scientific Beta examined 222 ESG characteristics to test whether ESG information permits investors to construct more efficient portfolios. The authors report that ESG information did not significantly improve out-of-sample Sharpe ratios or produce measurable out-of-sample risk reduction beyond traditional financial information.[4] This is directly relevant to Trump Accounts: the literature does not establish that ESG data will improve portfolios prospectively, and Treasury should not presume that ESG screening improves risk-adjusted performance enough to justify departing from broad-market neutrality.

B. Theory and Evidence Predict Lower Expected Returns for ESG-Favored Stocks

Asset-pricing theory predicts that when a large class of investors shuns certain stocks for nonfinancial reasons, those stocks must offer higher expected returns to attract other holders, while favored stocks offer lower expected returns. Robert Heinkel, Alan Kraus, and Josef Zechner showed in 2001 that exclusionary investing raises the cost of capital of excluded firms.[5] Ľuboš Pástor, Robert Stambaugh, and Lucian Taylor extended this framework in a widely cited 2021 equilibrium model, which predicts that green assets have lower expected returns because investors derive nonpecuniary benefits from holding them and value them as hedges against climate risk.[6] Put simply, the premium price that ESG-motivated investors pay for favored stocks becomes the lower return that holders of those stocks should expect to earn. A Trump Account confined to an ESG index would be systematically positioned on the low-expected-return side of that trade, on behalf of a beneficiary who never expressed the nonfinancial preference that might justify it.

The empirical record is consistent with that prediction. In a seminal 2009 study in the Journal of Financial Economics, Harrison Hong and Marcin Kacperczyk found that "sin" stocks—alcohol, tobacco, and gaming companies—are less held by norm-constrained institutions such as pension

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[3] Lasse Heje Pedersen, Shaun Fitzgibbons, and Lukasz Pomorski, "Responsible Investing: The ESG-Efficient Frontier," Journal of Financial Economics 142, no. 2 (2021): 572–597, https://doi.org/10.1016/j.jfineco.2020.11.001.

[4] Giovanni Bruno, Felix Goltz, and Antoine Naly, "Does ESG Information Deliver Investment Value? A High-Dimensional Portfolio Perspective," Scientific Beta working paper (May 30, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5280378.

[5] Robert Heinkel, Alan Kraus, and Josef Zechner, "The Effect of Green Investment on Corporate Behavior," Journal of Financial and Quantitative Analysis 36, no. 4 (2001): 431–449.

[6] Ľuboš Pástor, Robert F. Stambaugh, and Lucian A. Taylor, "Sustainable Investing in Equilibrium," Journal of Financial Economics 142, no. 2 (2021): 550–571, https://doi.org/10.1016/j.jfineco.2020.12.011.

plans and earn higher expected returns than comparable stocks.[7] H. Arthur Luo and Ronald Balvers, in the Journal of Financial and Quantitative Analysis, identify a premium for "systematic investor boycott risk" that is not displaced by litigation risk, neglect, illiquidity, or other established explanations.[8] Patrick Bolton and Marcin Kacperczyk document that stocks of firms with higher carbon emissions earn higher returns—a premium not explained by differences in profitability or known risk factors—and find that institutional investors apply exclusionary screens based on emissions intensity.[9] Po-Hsuan Hsu, Kai Li, and Chi-Yang Tsou report in the Journal of Finance that a portfolio holding high-toxic-emission firms and shorting low-emission firms within the same industries earned an average annual return of 4.42 percent, which remains significant after controlling for standard risk factors.[10] And Olivier David Zerbib's sustainable capital asset pricing model, published in the Review of Finance, estimates an average annual "exclusion effect" of 2.79 percent for stocks excluded by sustainable investors over 1999–2019.[11]

Research on companies excluded by Norway's Government Pension Fund Global—the world's largest sovereign wealth fund—points the same way. Portfolios of excluded firms produced statistically significant risk-adjusted outperformance (alpha) of about 5 percent per year, which the authors interpret as evidence that exclusion raises the excluded firms' cost of capital.[12] Likewise, Pieter Jan Trinks and Bert Scholtens, examining a global sample of 1,634 stocks in 94 countries from 1991 to 2012, found that controversial stocks frequently outperformed and that negative screening produced a statistically significant negative alpha—an opportunity cost borne by the screening investor.[13] The implication is straightforward: when a screen removes firms that go on to earn a return premium, beneficiaries forgo that return. Exclusions cannot be treated as financially costless.

Proponents of ESG investing sometimes point to periods in which ESG portfolios outperformed. But Pástor, Stambaugh, and Taylor show that the strong recent performance of green stocks reflected unexpectedly large increases in environmental concern, not high expected returns, and they estimate lower expected returns for green stocks than for brown stocks.[14] Realized outperformance driven by a one-time shift in investor tastes cannot be expected to recur and provides no basis for a decades-long investment program. Similarly, researchers have found that a positive association between ESG scores and stock performance in one widely used ratings database appears only in historical scores that the provider later rewrote; no such relationship appears in the data as originally published.[15]

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[7] Harrison Hong and Marcin Kacperczyk, "The Price of Sin: The Effects of Social Norms on Markets," Journal of Financial Economics 93, no. 1 (2009): 15–36, https://doi.org/10.1016/j.jfineco.2008.09.001.

[8] H. Arthur Luo and Ronald J. Balvers, "Social Screens and Systematic Investor Boycott Risk," Journal of Financial and Quantitative Analysis 52, no. 1 (2017): 365–399.

[9] Patrick Bolton and Marcin Kacperczyk, "Do Investors Care About Carbon Risk?" Journal of Financial Economics 142, no. 2 (2021): 517–549, https://doi.org/10.1016/j.jfineco.2021.05.008.

[10] Po-Hsuan Hsu, Kai Li, and Chi-Yang Tsou, "The Pollution Premium," Journal of Finance 78, no. 3 (2023): 1343–1392, https://doi.org/10.1111/jofi.13217.

[11] Olivier David Zerbib, "A Sustainable Capital Asset Pricing Model (S-CAPM): Evidence from Environmental Integration and Sin Stock Exclusion," Review of Finance 26, no. 6 (2022): 1345–1388, https://doi.org/10.1093/rof/rfac045.

[12] Erika Berle, Wanwei (Angela) He, and Bernt Arne Ødegaard, "The Expected Returns of ESG Excluded Stocks: Shocks to Firms' Costs of Capital? Evidence from the World's Largest Fund," working paper (Oct. 2023), https://ba-odegaard.no/wps/2023_oil_fund_exclusions/exclusions_2023_10.pdf; earlier version (June 2023) available at https://www.hanken.fi/sites/default/files/2023-08/odegaard.pdf.

[13] Pieter Jan Trinks and Bert Scholtens, "The Opportunity Cost of Negative Screening in Socially Responsible Investing," Journal of Business Ethics 140, no. 2 (2017): 193–208.

[14] Ľuboš Pástor, Robert F. Stambaugh, and Lucian A. Taylor, "Dissecting Green Returns," Journal of Financial Economics 146, no. 2 (2022): 403–424, https://doi.org/10.1016/j.jfineco.2022.07.007.

[15] Florian Berg, Kornelia Fabisik, and Zacharias Sautner, "Is History Repeating Itself? The (Un)Predictable Past of ESG Ratings," European Corporate Governance Institute Finance Working Paper, https://www.ecgi.global/publications/working-papers/is-history-repeating-itself-the-unpredictable-past-of-esg-ratings (documenting widespread retroactive changes to Refinitiv ESG historical scores).

C. ESG-Labeled Funds Have Not Delivered Superior Risk-Adjusted Returns

Fund-level evidence confirms that investors have not been compensated for accepting ESG constraints. Samuel Hartzmark and Abigail Sussman, using a natural experiment created by the introduction of Morningstar sustainability ratings, find that although investors moved billions of dollars toward highly rated funds in the expectation of better performance, high-sustainability funds did not outperform low-sustainability funds.[16] Aneesh Raghunandan and Shiva Rajgopal compare U.S. ESG mutual funds with non-ESG funds offered by the same asset managers in the same years and find that ESG funds underperformed and charged higher fees—and held firms with worse records of compliance with labor and environmental laws.[17] Hao Liang, Lin Sun, and Melvyn Teo find that hedge funds endorsing the United Nations Principles for Responsible Investment underperform those that do not after adjusting for risk, with the underperformance concentrated among signatories whose portfolios do not actually reflect their stated commitments.[18] An ESG label, in other words, guarantees neither financial nor nonfinancial results.

Other research shows that some investors knowingly accept lower returns in pursuit of nonfinancial objectives. Brad Barber, Adair Morse, and Ayako Yasuda find that impact-oriented venture capital funds earned internal rates of return 4.7 percentage points lower than traditional funds, and that investors were willing to accept expected returns 2.5 to 3.7 percentage points lower for such funds.[19] Notably, investors subject to legal fiduciary restrictions, such as ERISA, exhibited little willingness to make that trade. Although that study concerns private venture funds rather than index funds, its lesson applies directly here: a child cannot consent to trade financial return for nonfinancial objectives, and a federally created account held for a child's benefit should be invested as a fiduciary would invest it—for the beneficiary's financial benefit alone.

Christopher Geczy, Robert Stambaugh, and David Levin quantify the cost of restricting a portfolio to socially responsible mutual funds. For an investor who relies on the market model and holds index funds, the estimated cost is about 5 basis points per month—roughly 0.6 percent per year—and it rises sharply for investors whose strategies rely on other pricing factors or manager skill, exceeding a full percentage point per month in some specifications.[20] Even the lowest of these estimates is roughly six times the 0.1 percent annual fee ceiling Congress imposed on Trump Account investments—a ceiling that reflects Congress's judgment that small recurring costs matter over long horizons.

Real-world product data point the same way. A Scientific Beta analysis of a portfolio of sustainable ETFs investing in U.S. equities over approximately a decade, from July 2012 to December 2022, found that sustainable ETFs did not provide higher returns than standard index funds and that ESG scores showed little predictive power for future financial risks.[21] The sustainable

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[16] Samuel M. Hartzmark and Abigail B. Sussman, "Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows," Journal of Finance 74, no. 6 (2019): 2789–2837, https://doi.org/10.1111/jofi.12841.

[17] Aneesh Raghunandan and Shiva Rajgopal, "Do ESG Funds Make Stakeholder-Friendly Investments?" Review of Accounting Studies 27, no. 3 (2022): 822–863, https://doi.org/10.1007/s11142-022-09693-1.

[18] Hao Liang, Lin Sun, and Melvyn Teo, "Responsible Hedge Funds," Review of Finance 26, no. 6 (2022): 1585–1633, https://doi.org/10.1093/rof/rfac028.

[19] Brad M. Barber, Adair Morse, and Ayako Yasuda, "Impact Investing," Journal of Financial Economics 139, no. 1 (2021): 162–185; working paper version available as NBER Working Paper No. 26582, https://www.nber.org/papers/w26582.

[20] Christopher C. Geczy, Robert F. Stambaugh, and David Levin, "Investing in Socially Responsible Mutual Funds," Review of Asset Pricing Studies 11, no. 2 (2021): 309–351.

[21] Giovanni Bruno, Felix Goltz, and Antoine Naly, "Sustainability Alpha in the Real World: Evidence from Exchange-Traded Funds," summarized in EDHEC-Risk Institute and Scientific Beta, IPE EDHEC Research Insights (Investment & Pensions Europe, Winter 2024), https://docs3.scientificbeta.com/newsletter/202401/documents/IPE_EDHEC_Research_Insights_Winter_2024.pdf.

portfolio produced annualized returns 0.24 percentage points below the U.S. equity-market benchmark. The authors caution that a single decade is too short to establish or rule out a long-run sustainability premium. The defensible conclusion is therefore not that every ESG portfolio will underperform in every period, but that the record does not demonstrate a persistent financial advantage sufficient to justify departing from broad-market neutrality in these accounts.

The relevant question is whether ESG screening produces a sufficiently reliable financial benefit to justify departing from the broad-market exposure around which Congress designed the program. The evidence does not establish such a benefit; if anything, it points toward a cost. That matters greatly for accounts intended to compound on behalf of millions of children over long horizons. A short-term investor might reasonably tolerate a modest performance gap. For a child whose account will compound throughout the growth period, even modest recurring shortfalls can meaningfully reduce the balance available at adulthood. As a purely illustrative example, $1,000 growing at 7 percent annually for 18 years would reach about $3,380; at 6.5 percent, it would reach about $3,107—roughly 8 percent less.[22]

This reinforces a basic principle for Treasury: Trump Account eligibility should not be based on whether a particular investment happened to outperform during a particular market cycle. The rule should instead favor the durable characteristics Congress selected: low cost, broad equity exposure, index replication, and avoidance of excessive risk. Treasury is therefore correct to classify ESG indices as ineligible investments for Trump Accounts and to prefer the transparent, broad-market benchmark.

III. ESG Metrics Are Too Unstable to Serve as a Federal Eligibility Standard or to Become Part of the Trump Account Default Architecture

"ESG" is not a single, stable investment methodology. Funds bearing the same label can apply different exclusions, use different rating vendors, assign different weights to environmental, social, and governance considerations, and reach different judgments about the same company. Florian Berg, Julian Kölbel, and Roberto Rigobon, in the Review of Finance, find that the correlations among ESG ratings from six prominent providers range from only 0.38 to 0.71, with most of the divergence arising from disagreement about how the same attributes should be measured.[23] Historical ESG scores have even been rewritten after the fact.[24] That subjectivity makes it difficult for trustees and families to know what risk they are accepting or which social objective their money is being used to advance.

The proposal wisely avoids trying to solve this problem by creating a federal ESG rating system. Instead, it focuses on the index's stated methodology and marketing. An index is ineligible if it has, or is marketed as having, an ESG focus. That administrable test is preferable to asking IRS personnel to decide whether a particular company is sufficiently environmentally sustainable, socially responsible, diverse, or well governed. It also reduces the incentive for providers to repackage a policy-driven screen under a new label. The proposal's focus on ESG indices helps prevent a trustee from selecting a politically screened product while claiming that it resembles an ordinary market index, and it keeps political discretion away from trustees and index providers.

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[22] Authors' calculation: $1,000 × (1.07)^18 ≈ $3,380 and $1,000 × (1.065)^18 ≈ $3,107. The figures are illustrative only and are not a projection of the returns of any particular fund or index.

[23] Florian Berg, Julian F. Kölbel, and Roberto Rigobon, "Aggregate Confusion: The Divergence of ESG Ratings," Review of Finance 26, no. 6 (2022): 1315–1344, https://doi.org/10.1093/rof/rfac033.

[24] Berg, Fabisik, and Sautner, supra note 15.

ESG investing also extends well beyond index construction into stewardship. The Committee to Unleash Prosperity's 2023 "Politics Over Pensions" report examined how major asset managers voted on 50 ESG-oriented shareholder proposals during the 2022 proxy season.[25] The report illustrates that ESG stewardship reaches contested policy questions involving emissions, energy, social issues, and corporate governance—matters on which reasonable citizens disagree and which bear no necessary relationship to a beneficiary's financial interest—and argues that many such votes are in tension with fiduciary obligations.

The Committee's 2024 review of major asset managers found that support for selected ESG resolutions fell substantially between the 2022 and 2023 proxy seasons, and subsequent scorecards documented continued movement away from such proposals.[26] Those findings show that practices once presented as a settled feature of responsible investment remain contested and can change quickly in response to shifting political and cultural pressure. The long-run purpose of fiduciary responsibility counsels against locking in today's ESG preferences. A beneficiary born in 2026 will experience technologies, industries, risks, and public priorities that cannot be predicted today. Market-capitalization-weighted indices adapt as companies grow, shrink, enter, and leave the market. A policy screen, by contrast, makes an ex ante judgment about which firms or activities should be favored or disfavored. Over a long horizon, that judgment can become a liability.

Nor is there strong evidence that ESG screening achieves its stated nonfinancial objectives. Davidson Heath, Daniele Macciocchi, Roni Michaely, and Matthew Ringgenberg find that although socially responsible funds select firms with better environmental and social profiles, those funds do not significantly change firm behavior—a pattern the authors describe as "impact washing."[27] Jonathan Berk and Jules van Binsbergen, in the Journal of Financial Economics, find that the effect of ESG divestment on targeted firms' cost of capital is too small to meaningfully affect real investment decisions.[28] A Trump Account beneficiary would therefore bear the financial costs of a screen without reliable assurance of the benefits its proponents claim.

Trump Account eligibility should not depend on an unstable ideology or on the proxy-voting priorities of a particular fund manager. Treasury can instead maintain a straightforward principle: during the growth period, accounts should provide inexpensive exposure to qualifying portions of the U.S. equity market rather than serve as vehicles for contested environmental or social objectives.

IV. Treasury Should Preserve a Financially Neutral Default and Exclude Nonfinancial Screens

The final rule should avoid equating every consideration of an environmental, social, or governance fact with ESG investing. Environmental regulations can affect costs.[29] Litigation and

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[25] Committee to Unleash Prosperity, "Politics Over Pensions: The First Annual Report Card on Investment Fund Managers and Proxy Voting Behavior" (2023), https://committeetounleashprosperity.com/wp-content/uploads/2023/05/PensionPolitics_Report-1.pdf.

[26] Jerry Bowyer, Stephen Moore, and the Staff of the Committee to Unleash Prosperity, "Putting Politics Over Pensions: The 2024 Committee to Unleash Prosperity Report Card on Investment Fund Managers and Proxy Voting Behavior" (Apr. 2024), https://committeetounleashprosperity.com/wp-content/uploads/2024/09/PensionPolitics-2024-Report.pdf; Committee to Unleash Prosperity, "WSJ Spotlights Our Victory Over ESG" (Nov. 18, 2025), https://committeetounleashprosperity.com/hotlines/wsj-spotlights-our-victory-over-esg/.

[27] Davidson Heath, Daniele Macciocchi, Roni Michaely, and Matthew C. Ringgenberg, "Does Socially Responsible Investing Change Firm Behavior?" Review of Finance 27, no. 6 (2023): 2057–2083, https://doi.org/10.1093/rof/rfad002.

[28] Jonathan B. Berk and Jules H. van Binsbergen, "The Impact of Impact Investing," Journal of Financial Economics (2025), https://doi.org/10.1016/j.jfineco.2024.103972.

[29] See, e.g., Stanford Sustainable Finance Initiative, "Risk and Return Opportunities of ESG Investing: Evidence from Global Markets," https://sfi.stanford.edu/risk-and-return-opportunities-esg-investing-evidence-global-markets; Hemendra Gupta and Rashmi Chaudhary, "An Analysis of Volatility and Risk-Adjusted Returns of ESG Indices in Developed and Emerging Economies," Risks 11, no. 10 (2023): art. 182, https://doi.org/10.3390/risks11100182.

legal liability can affect valuation. Management and board quality can affect corporate performance. Labor conditions may affect productivity or operating risk. These and other considerations can be financially material.

The relevant question for Treasury is whether a federal program for children should permit trustees to narrow the investment universe for expressly nonfinancial reasons when low-cost, diversified, market-replicating alternatives are available. The purpose of § 1.530A-3(e)(3) should therefore not be to discourage investment professionals from recognizing financially relevant information. Rather, it should distinguish financial analysis from index methodologies that intentionally alter market exposure in pursuit of an environmental, social, or governance objective independent of expected financial risk and return. Where an investment has uncertain financial benefits and known potential to reduce diversification, eligibility should turn on financial design rather than ideology.

V. Recommended Clarifications

Treasury and the IRS should finalize the ESG-index exclusion while making three clarifications that will improve administrability and prevent unnecessary disputes.

First, preserve the proposed focus-and-marketing test. An index should be treated as an ESG index when its objective, methodology, or marketing identifies environmental, social, or governance outcomes as an independent focus of the index, and those considerations affect selection, exclusion, or weighting.

Second, establish a safe harbor for financially material analysis. A fund should not become ineligible merely because an index provider considers governance quality, regulatory exposure, environmental liabilities, or other information, insofar as the provider uses that information to estimate financial risk and return rather than to achieve a separate policy outcome. A fund should be ineligible when its index uses environmental, social, or governance criteria to pursue an objective independent of financial risk and return.

Third, provide a reasonable remediation period. Index methodologies and fund characteristics can change. If an otherwise eligible fund subsequently becomes ineligible, trustees should receive a defined period in which to redirect contributions and transfer existing assets consistent with the statute. The final regulation should prevent a change in index methodology or marketing from forcing disorderly transactions.

These clarifications would reinforce rather than weaken the proposed rule. They would preserve the exclusion of politically motivated investment products designed around ESG objectives while avoiding the opposite error of treating ordinary financial risk analysis as ideological investing.

The governing test should ultimately remain financial: Does an index seek broad exposure to a qualified portion of the U.S. equity market, or does it deliberately sacrifice that exposure to advance nonfinancial objectives apart from risk and return?

Conclusion

Trump Accounts offer an opportunity to give millions of American children a genuine stake in U.S. capital markets. Congress appropriately built the accounts around a simple formula during their growth period: low costs, passive investment, broad equity exposure, and limits on leverage. Proposed § 1.530A-3(e)(3) advances those goals by excluding investment funds that track ESG indices during the growth period.

The peer-reviewed evidence does not establish that adding ESG considerations to portfolio construction provides a reliable risk-adjusted-return advantage. To the contrary, asset-pricing theory and a substantial body of empirical research indicate that stocks favored by ESG screens should be expected to earn lower returns, that excluded stocks have historically earned return premiums, and that ESG-labeled funds have not outperformed—and in several studies have underperformed—while often charging higher fees. Recent out-of-sample research likewise finds no portfolio-performance improvement from incorporating a large set of ESG information. None of these findings suggest that private investors should be prevented from choosing ESG strategies; they should be free to make that choice with their own money. But they do demonstrate why Treasury should not assume that ESG restrictions serve the financial interests of children whose federally created accounts are specifically designed around low-cost, broad-market investment.

Treasury and the IRS should therefore finalize proposed § 1.530A-3(e)(3). They should also provide objective criteria connecting the ESG definition to index objectives and construction, establish a workable eligibility-certification procedure, and provide an orderly remediation process when a fund's eligibility changes. These steps would preserve individual investment decisions outside Trump Accounts while protecting the financial purpose Congress established within them. Most importantly, they would ensure that Trump Accounts serve not the political priorities of the financial intermediaries managing the money, but their true beneficiaries: children building a long-term ownership stake in the growth of the American economy.

Respectfully submitted,

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[*] These comments are submitted in the authors' personal capacity, and the views expressed here should not be construed as representing an official position of any employer.