Ceres Accelerator
FOR SUSTAINABLE CAPITAL MARKETS

October 19, 2026

Internal Revenue Service, Department of the Treasury
Attn: CC:PA:01:PR (CC-00349938-26)

Re: Guidance on Eligible Investments for Trump Accounts, CC-00349938-26

Submitted electronically via Regulations.gov

Ceres and the Ceres Accelerator for Sustainable Capital Markets appreciate the opportunity to comment on the proposed rule "Guidance on Eligible Investments for Trump Accounts" (proposed Guidance).

Ceres is a nonprofit advocacy organization with over 35 years of experience working to accelerate the transition to a cleaner, more just, and resilient economy. Our Investor Network, Company Network, and Policy Network include many large US institutional investors and large companies with whom we work on a range of sustainability-related and policy-related issues. The Ceres Accelerator for Sustainable Capital Markets aims to transform the practices and policies that govern capital markets by engaging federal and state regulators, financial institutions, investors, and corporate boards to address weather-driven risk as a systemic financial risk. The comments provided herein represent only the opinions of Ceres, and do not necessarily infer endorsement by each member of our Investor, Company, or Policy Networks.

Ceres respectfully urges the Department of the Treasury and the Internal Revenue Service to strike the proposed exclusion of investment funds that track environmental, social, or governance ("ESG") indices in the proposed Guidance.

Eligibility should turn on what an index does and should not be decided by a label rather than by investment characteristics. The proposed Guidance already sets the test for the characteristics that matter for a long-term savings vehicle: a publicly available index methodology, the exclusion of industry- and sector-specific indexes, a primarily U.S. composition, a 0.1 percent cap on annual fees and expenses, and a prohibition on leverage. An index that incorporates ESG information can satisfy the same objective eligibility requirements as other qualifying indexes. The categorical ESG exclusion disqualifies funds by their label rather than by investment characteristics, with little explanation of why this is appropriate.

I. ESG factors can be financially material and relevant to investment performance

A. Empirical analysis shows that ESG factors can affect financial outcomes

A substantial body of empirical research links ESG performance to firm financial outcomes. Read in full, the Whelan meta-analysis, cited in the proposed Guidance, finds that ESG factors appear to provide downside protection during crises and affect financial performance through risk management and innovation, supporting the financial relevance of ESG information (Whelan, et al., 2021).

More recent studies provide additional evidence. Morningstar Sustainalytics' 2025 analysis of S&P 1500 companies (2019–2025) found lower ESG risk associated with modestly higher excess returns, and with outperformance during the COVID-19 downturn (Morningstar, 2025). A 2025 study of 3,856 U.S.-listed stocks from 2002 to 2022 found that improvements in ESG performance were associated with higher returns and lower volatility, although higher absolute ESG scores were associated with somewhat lower long-term returns. (Escobar-Saldivar, et al, 2025). A 2026 Imperial College London working paper analyzing over 360,000 sustainability initiatives disclosed by roughly 3,000 U.S. companies from 2015 to 2024 found that activities embedding sustainability into operations, products, and innovation generated significant outperformance, with the top 15% of firms delivering 4.56% annualized alpha (ICL, 2026). Globally, a 2026 meta-analysis of 79 peer-reviewed studies worldwide (493 effect sizes) found a moderate positive association between ESG performance and firm financial outcomes, including profitability, operational stability, and indicators of long-term value (Silvia, 2026).

Some of the studies above caution that the associations varied by industry, region, and disclosure quality, and that the relationship is correlational rather than causal. Even with that variation, the evidence generally shows that ESG information is relevant to firm financial outcomes.

B. Investors use ESG information as financial information

The ESG classification can capture key indicators that investors and companies evaluate in ordinary financial-risk frameworks. ESG is "a strategic tool for financial resilience and risk management, rather than solely an ethical or reputational construct." (Erzurumlu et al., 2025) The exclusion would needlessly bar account holders from choosing index funds whose methodologies focus on financially relevant ESG factors without a reasoned explanation.

A 2026 analysis of fixed-income markets shows how the financial impact of physical hazards can directly affect a range of key factors, including liquidity, operating income, debt-service coverage, covenant compliance, collateral values, credit ratings, spreads, refinancing, and recovery values (US SIF & Canbury Insights, 2026). Ceres assessed 50 of the largest North American investors, including 25 asset owners and 25 asset managers, based on their 2025 public disclosures and investor interviews. The assessment examined more than 60 indicators to understand how climate-related risks and opportunities, and ESG considerations, are being integrated into core investment practices. It found that 74% assess climate-related portfolio risks and 64% use climate scenario

Ceres Headquarters: 99 Chauncy Street, Boston, MA 02111
California Office: 369 Pine Street, Suite 620, San Francisco, CA 94104
ceres.org

analysis. CalPERS explicitly stated that climate risk is financially material, and its strategy includes assessing and mitigating climate risk while pursuing related investments (Ceres, 2026).

This use of ESG information is consistent with ordinary fiduciary and investment practices. BlackRock has explained that index-linked investors are necessarily long-term investors and that it engages on matters that can influence the long-term value of firms. (Ceres, ICCR, & US SIF 2017) The same report notes that institutional investors focus on maximizing risk-adjusted, long-term, portfolio-wide returns and use ESG-related information to identify risks before they impair shareholder value.

This matters because an index methodology could incorporate factors relating to supply-chain resilience, geopolitical concentration, corporate governance, human capital, or legal and regulatory exposure and still fall within a broad ESG definition. The financial relevance of those factors does not depend on whether a provider markets the methodology using the term "ESG."

This approach is consistent with the Department of Labor's 2022 ERISA regulation, a relevant regulatory precedent for distinguishing financial analysis from nonfinancial investment objectives, although it does not directly apply to Trump Accounts. The regulation recognizes that fiduciaries may consider the economic effects of climate change and other ESG factors when relevant to risk and return, a position upheld by federal courts in 2023 and 2025.

Research published in 2025 suggests that investors recognize the financial significance of climate risk, although their understanding of that risk may vary depending on how it is described. (World Economic Forum, 2025).

II. **The categorical exclusion is overbroad and internally inconsistent**

Treasury "acknowledge[s] that describing an ESG index as a sector-specific index could generate confusion," but then excludes ESG indexes anyway as "similar to" sector funds. But the rule permits other indexes that also limit the investable universe, including indexes based on market-cap ranges, thresholds, or rankings, as well as the S&P 500 and indexes meeting the 90 percent U.S. safe harbor. Treasury has not established that an index incorporating ESG criteria necessarily presents greater sector concentration or other investment risks than indexes otherwise permitted under the proposed Guidance.

The categorical ESG exclusion is too broad. It applies to any index that "has, or is marketed as having, a focus" on environmental, social, or governance factors, even if the fund otherwise satisfies the rule's requirements. Two of the three triggers turn entirely on marketing: whether an index 'is marketed as having' an ESG focus, and whether a fund 'is marketed or sold as' tracking one. Additionally, "focus" is undefined in the proposed Guidance, which assumes that "[t]rustees are likely to act cautiously by selecting funds and indexes that clearly satisfy the requirements."

Ceres Headquarters: 99 Chauncy Street, Boston, MA 02111
California Office: 369 Pine Street, Suite 620, San Francisco, CA 94104
ceres.org

Applied to an undefined "focus" test, that caution would likely lead trustees to avoid any index that references ESG factors, including indexes that use them as one input among many.

Whether an ESG index concentrates holdings by sector depends on its methodology, not its label: a 2026 peer-reviewed study of 26 countries, including the United States, found that ESG portfolios built by comparing companies within each industry "select[] within-industry ESG leaders across all sectors instead of tilting toward a few," reducing sector concentration by 4.68 to 7.12 percent relative to portfolios built on raw ESG scores, which were themselves "comparable to the non-ESG portfolios." (Matteucci, & Venanzi, 2026).

The proposed Guidance also assumes that relatively few adults managing Trump Accounts would select ESG-index funds, relying on their small share of existing investment assets. However, current market-wide asset allocations do not necessarily predict investment preferences for a new, long-term child savings program.

Moreover, even if demand were limited, that would not independently establish a financial or regulatory justification for excluding funds that otherwise satisfy the applicable eligibility criteria. Treasury's own analysis acknowledges that ESG investment returns have generally been indistinguishable from conventional investment returns.

The proposed Guidance's broad and undefined ESG exclusion creates an uncertainty that could discourage account holders from investing in otherwise eligible funds. For example, a broadly diversified U.S. equity index might screen companies for significant exposure to forced labor in their supply chains, repeated accounting violations, or material governance failures, which are all conventional assessments of legal, operational, and financial risk. Yet such an index, if marketed as incorporating social or governance factors, could potentially fall within the proposed exclusion, even if it otherwise satisfies the requirements for eligible investments.

A recent case illustrates the risk of undefined regulatory standards. In American Sustainable Business Council v. Hegar, a federal district court found that some of the key terms in the Texas anti-boycott law were "undefined and not susceptible to objective measurement or determination." The proposed Guidance's undefined "focus" standard raises similar concerns. Index providers, fund sponsors, and trustees must guess whether an index that uses ESG information as one input among many, or whose marketing references such factors, has a disqualifying "focus."

III. **Recommendation**

We therefore respectfully recommend that the Treasury and IRS:

Ceres Headquarters: 99 Chauncy Street, Boston, MA 02111
California Office: 369 Pine Street, Suite 620, San Francisco, CA 94104
ceres.org

- Apply the same objective eligibility criteria, such as requirements relating to index tracking, leverage, fees, U.S. exposure, and transparent methodology, to evaluate the eligibility of all funds, including those that track ESG indices, and

- Remove the categorical exclusion of investment funds that track ESG indices.

Thank you for your consideration. We would be pleased to discuss any questions you have about our feedback. Please contact Holly Li (hli@ceres.org) at your convenience.

Sincerely,



Holly Li
Program Director, Ceres Accelerator for Sustainable Capital Markets

Ceres Headquarters: 99 Chauncy Street, Boston, MA 02111
California Office: 369 Pine Street, Suite 620, San Francisco, CA 94104
ceres.org