

RESPONSIBLE INVESTMENT

Shining a light

It's been an uphill struggle, but the US Securities and Exchange Commission is finally giving serious consideration to ESG disclosure, says **Lisa Woll**

After years of pressure from socially responsible investors, the US Securities and Exchange Commission (SEC) is finally showing interest in enhanced environmental, social and governance (ESG) disclosure. At its very first meeting in July, the SEC Investor Advisory Committee agreed that its agenda would include assessing whether current disclosure practices actually give investors the information they need.

It has been a long haul for socially responsible investment (SRI) firms and other investors to arrive at this point. Beginning in the 1990s, the Corporate Sunshine Working Group (CSWG), which was an alliance of investors, environmental organisations, unions and public interest groups, began advocating for greater ESG disclosure by filing enforcement complaints at the SEC regarding companies' inadequate reporting of ESG risks to investors and encouraging the SEC to issue detailed ESG disclosure rules.

In 1998, the CSWG delivered a letter to then SEC chairman Arthur Levitt requesting stricter ESG reporting rules by companies making filings to the SEC, including information on the nature of any business ties with countries facing US economic sanctions, corporate political contributions, toxic releases reported under the Environmental Protection Agency's (EPA's) Toxic Release Inventory and discrimination complaints filed with the Equal Employment Opportunity Commission. The coalition also highlighted its concerns at a Capitol Hill symposium in 2003 in an attempt to drum up legislative support for this type of regulatory reform.

A report in July 2004 from the Government Accountability Office – an investigative arm of Congress – reinforced the need for greater ESG disclosure. It found that little was known about the extent to which US companies were disclosing environmental information in their SEC filings and described the task of assessing companies' environmental records as "extremely challenging" in the absence of



Is the SEC seeing the light on ESG disclosure?

stricter requirements. The report recommended that the SEC reissue guidance in these areas and explore "opportunities to take better advantage of EPA data that may be relevant". However, the SEC did not heed these or other calls, including a 2007 petition filed by investor and environmental coalition Ceres on climate change. That is, until recently.

In January 2009, the 400-member Social Investment Forum (SIF), the US membership association for SRI professionals and institutions, issued a letter to then President-elect Barack Obama asking him to move swiftly on several key issues, including mandating sustainability reporting. Unlike similar efforts before it, this call elicited a favourable response; meetings with SEC commissioners and staff indicated an interest in knowing more about how mandatory ESG reporting could work.

The momentum reached a critical point this summer when more than 80 major investment firms and professionals joined SIF in calling on the SEC to help strengthen financial markets by requiring publicly traded companies to report annually on a range of ESG matters. Among the co-signers were many of the original members of the CSWG, including the union federation AFL-CIO, Domini Social Investments and Trillium Asset Management. Altogether, the signatories to the SIF letter represent more than \$500 billion in assets under management. Additionally, the Investor Network on Climate Risk and other global investors called on the SEC to improve disclosure of climate change and other material sustainability risks in securities filings.

This summer also saw the UN Environment Programme Finance Initiative, with the backing of investment managers representing \$2 trillion in assets under management, issue a 120-page follow-up to a groundbreaking 2005 Freshfields report. It concluded that profes-

sional investment advisers and service providers might have a far greater legal obligation than outlined in the original Freshfields report to incorporate ESG issues into their investment services or face "a very real risk that they will be sued for negligence".

What these investors, financial firms and other organisations universally understand is that risk disclosure is at the very heart of the financial markets and can be the difference between them running smoothly or failing miserably. It is why we believe that the SEC should move to make sustainability reporting mandatory.

The ESG disclosure proposal outlined by the Social Investment Forum in our July 2009 letter to the SEC has two components.

The first requests that the SEC require issuers to report annually on a comprehensive, uniform set of sustainability indicators comprised of both universally applicable and industry-specific components and suggests that the SEC define this as the highest level of the current version of the Global Reporting Initiative reporting guidelines.

The second asks that the SEC issue interpretative guidance to clarify that companies are required to disclose short- and long-term sustainability risks in the Management Discussion and Analysis (MD&A) section of the annual 10-K filing.

Investors are encouraged by indications that the SEC, under this administration, may give ESG disclosure the serious study it deserves.

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