The Forum for Sustainable and Responsible Investment

April 17, 2023

The Honorable Patrick McHenry
Chairman
House Financial Services Committee
2134 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
House Financial Services Committee
2221 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman McHenry, Ranking Member Waters and Members of the Committee,

On behalf of US SIF: The Forum for Sustainable and Responsible Investment, I write to support the Committee's important role in conducting oversight of the Securities and Exchange Commission (SEC).

US SIF is the leading voice advancing sustainable investing across all asset classes. Our mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Our members include investment management and advisory firms, mutual fund companies, asset owners, research firms, financial planners, advisors, and broker-dealers, representing more than $5 trillion in assets under management or advisement. US SIF members incorporate environmental, social and governance (ESG) criteria into their investment decisions and take their shareowner responsibilities seriously, including voting proxies and engaging with companies.

Under Chair Gensler, the SEC has taken on important challenges that impact investors. US SIF supports the goals of the SEC's proposed rules on climate risk disclosure, investment company names, ESG disclosures for investment advisors and companies and updates to the shareholder proposal process (Rule 14a-8). We also support the SEC in issuing further disclosure rules that help our members assess long-term risks and opportunities. In particular, we have urged the agency to propose a strong rule on human capital management disclosures as soon as is practicable.

The field of sustainable investing remains strong as demonstrated by US SIF Foundation's 2022 Report on Sustainable Investing Trends.[1] The report identified $7.6 trillion in US-domiciled assets at the beginning of 2022 held by 497 institutional investors, 349 money managers and 1,359 community investment institutions that apply various ESG criteria in their investment decision-making and portfolio construction. In addition, 154 institutional investors and 70 money managers controlling $3.0 trillion in assets under management led or co-led shareholder resolutions on ESG issues from 2020 through the first half of 2022. Both money managers and institutional asset owners cited climate change/carbon emissions as the top issue they addressed in ESG incorporation, with each group saying it applied to more than $3.0 trillion of the assets

[1] https://www.ussif.org/blog_home.asp?Display=194

under their purview. Climate and environmental risks are also front and center in the 2023 proxy season. This year, proponents have filed 122 climate-related shareholder resolutions, up from 110 in 2022 and 79 in 2021.[2] The proposals this year focus heavily on corporate reporting of greenhouse gas emissions targets as well as how the movement towards a lower carbon economy will impact their business.

The economic impact of climate change is clear. The National Oceanic and Atmospheric Administration showed that in 2022 there was $165 billion in damages due to climate change-fueled extreme weather, including 18 different weather disasters that each cost a billion dollars or more.[3] Last month, the U.N. Intergovernmental Panel on Climate Change (IPCC) released its most urgent warning yet– that we are quickly approaching the point of no return on rising global temperatures and that countries around the world need to act rapidly to decarbonize their economies.[4] As governments move to keep temperatures under the critical 1.5 degrees Celsius threshold, companies need to disclose to their shareholders how this move to a decarbonized economy will affect their business.

Despite the attempts to politicize the field of sustainable investing and climate-related financial risk, setting disclosure rules that make available information investors need to evaluate risk and return is squarely within the SEC's mandate. In their January 2023 comment letter about the proposed climate risk disclosure rule, securities law experts reiterated the Commission's distinct mandate to require increased disclosure, saying, "Congress structured securities regulation as principally disclosure-based, instructing the SEC to regulate the capital markets through an extensive disclosure regime for publicly traded companies. The SEC's statutory authority over disclosure is broad by congressional design, extending not just to information relevant to investor trading decisions but also to information used by investors in connection with the exercise of their voting rights."[5] The letter also highlights the Commission's decades-long history of requiring environmental-related disclosures.

In addition to having the authority to issue disclosure rules, the SEC mandate includes maintaining fair, orderly, and efficient markets. The European Union's Corporate Sustainability Reporting Directive (CSRD), which will require detailed reporting on a number of sustainability and governance risk factors by EU companies and companies doing business in Europe will be phased in starting January 1, 2024. The new requirements ask companies to disclose a broad scope of information related to long-term risks including their scope 1, 2 and 3 greenhouse gas emissions, pollution, biodiversity and supply chain management.[6] New research estimates that at least 10,000 companies outside of the EU will have to comply with these disclosures, and 31% of

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[2] https://www.proxypreview.org/2023/report-blog/environmental-issues
[3] https://www.npr.org/2023/01/12/1148633707/extreme-weather-fueled-by-climate-change-cost-the-u-s-165-billion-in-2022#:~:text=Extreme%20weather%2C%20fueled%20by%20climate,%24165%20billion%20in%202022%20%3A%20NPR&text=Press,Extreme%20weather%2C%20fueled%20by%20climate%20change%2C%20cost%20the%20U.S.%20%24165,growing%20cost%20of%20climate%20change
[4] https://www.theguardian.com/environment/2023/mar/20/ipcc-climate-crisis-report-delivers-final-warning-on-15c
[5] https://www.sec.gov/comments/s7-10-22/s71022-20154853-323117.pdf
[6] https://corpgov.law.harvard.edu/2023/01/30/eu-finalizes-esg-reporting-rules-with-international-impacts/

those are American companies.[7] With so many U.S. companies having to report against the EU disclosure requirements in the next few years, it is imperative that the SEC work to harmonize requirements for companies in the U.S. with other global markets.

We applaud the work of the SEC staff in thoroughly reviewing the current challenges facing investors and seeking input from a wide range of stakeholders to develop recent rules. The agency should be encouraged to continue the important work of protecting investors and maintaining our capital markets.

Sincerely,

Bryan McGannon
Acting CEO and Managing Director

CC: Members of the House Financial Services Committee

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[7] https://www.wsj.com/articles/at-least-10-000-foreign-companies-to-be-hit-by-eu-sustainability-rules-307a1406