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The Forum for Sustainable and Responsible Investment

U.S. House Committee on Financial Services

Subcommittee on Investor Protection, Entrepreneurship and Capital Markets

Building a Sustainable and Competitive Economy: An Examination of Proposals to Improve Environmental, Social and Governance Disclosures

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Submitted testimony by Lisa Woll, CEO
US SIF: The Forum for Sustainable and Responsible Investment[1]

On behalf of US SIF: The Forum for Sustainable and Responsible Investment, I would like to thank the Subcommittee for holding this historic hearing on the vital role environmental, social and governance (ESG) disclosure plays in ensuring transparency and accountability in our capital markets.

ESG disclosure is important to investors because it helps them assess whether companies have the policies and practices in place to ensure that they can remain profitable not only in the the short term but for many years to come. An example of such ESG concerns include:

- Are they using natural resources as efficiently as possible and minimizing waste?
- Are they able to attract and retain talent?

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[1] https://www.ussif.org

- Are they engaged in operations that will alienate the communities in which they operate or that violate human rights? Do their activities harm their reputation?
- Do their boards of directors offer sufficient expertise and diversity of opinion to management?

US SIF is the leading voice advancing sustainable, responsible and impact 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 membership represents more than $3 trillion in assets under management.

However, the breadth of investors in the United States who are examining ESG issues and corporate sustainability extends well beyond US SIF members. The US SIF Foundation's *Report on US Sustainable, Responsible and Impact Investing Trends 2018* found that US-domiciled assets under management using sustainable investment strategies grew from $8.7 trillion at the start of 2016 to $12.0 trillion at the start of 2018, an increase of 38 percent.[2] The money managers who responded to the report's survey cited client demand, their fiduciary duty, their desire to minimize investment risk and their desire to improve financial returns and generate social benefit as the leading reasons why they consider ESG factors.[3]

US SIF has been a leading advocate for ESG disclosure since 2009 when we, along with scores of other investors, sent a letter petitioning the SEC to initiate a rulemaking to create a comprehensive ESG disclosure framework[4]. The letter asked that the SEC:

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[2] *Report on US Sustainable, Responsible and Impact Investing Trends 2018* US SIF Foundation, Washington, DC. www.ussif.org/trends

[3] Ibid, p. 28, fig. 2.13

[4] https://www.ussif.org/files/Public_Policy/Comment_Letters/SIF_SEC_ESG_Disclosure_Policy_Letter_and_Submission%2008142009.pdf

1) mandate that companies report annually on a comprehensive set of sustainability indicators comprised of both universally applicable and industry-specific components and;

2) issue interpretative guidance to clarify that issuers are required to disclose short- and long-term sustainability risks in the Management Discussion and Analysis section of the 10-K (MD&A).

Since the 2009 letter, sustainable investing has undergone tremendous growth. Concurrently, there have been multiple calls from a broad range of investors for enhanced disclosure:

- The Dodd Frank Wall Street Reform Act included several provisions for disclosure including conflict minerals, resource extraction payments, executive compensation and board diversity.
- The SEC issued guidance on climate change disclosure in 2010, but enforcement ebbed during the Obama Administration and has been non-existent since 2016.
- SEC Chair Mary Jo White launched the "Disclosure Effectiveness" review in 2014, which led to the Regulation S-K Concept Release in 2016. Of the 278 non-form letter responses, two-thirds of the public comments addressed sustainability issues and most of these supported sustainability-related disclosures in SEC filings.[5] No further action has happened on this matter to date.

Investors are demanding and often utilizing multiple data sources to assess the environmental, social and governance priorities and risk management strategies of publicly traded companies. Additionally, some public companies are voluntarily producing "sustainability reports" designed to explain how they are addressing ESG risks and opportunities and creating long-term value for

[5] *Business and Financial Disclosure Required by Regulation S-K – the SEC's Concept Release and Its Implications*, Sustainability Accounting Standards Board, (September 2016), https://www.sasb.org/wp-content/uploads/2016/09/Reg-SK-Comment-Bulletin-091416.pdf

shareholders. However, there are substantial problems with the nature, timing, comparability and extent of these voluntary disclosures. Also, voluntary reporting leads to significant data gaps, especially among medium- and small-sized companies.

There is a need to develop a comprehensive framework to help ensure that companies report more consistent, complete and comparable information relevant to their long-term risks and performance.

US SIF supports legislation that will advance the reporting of uniform, consistent, and comparable information on a broad range of environmental, social and governance risks and opportunities. While we are not opposed to single-issue disclosure bills in and of themselves, they are not a substitute for one bill focused on broad ESG disclosure.

To this end, US SIF has developed principles to guide effective policymaking on ESG disclosure. A broad range of practitioners in the sustainable investment industry contributed to the development of these principles, including asset management firms, financial advisory and consulting firms and data service providers. We ask that the Committee consider these principles as it moves forward with its work on ESG disclosure.

Mandatory Disclosure – ESG (environmental, social and governance) disclosure must be mandatory for all reporting issuers in the United States. Such disclosure should include a qualitative management discussion of ESG issues and quantitative ESG data comprised of both universally applicable and industry-specific components. Companies should present their sustainability management policies and strategies, ESG performance data and management's analysis for investors of the key conclusions from this information. Reporting must be submitted annually in Form 10-K and be auditable.

Comprehensive Reporting – The reporting framework should be comprehensive and include, at a minimum, the environmental, social and governance issues defined by the Global Reporting

Initiative (GRI), the most widely adopted global standard for sustainability reporting. The framework should require companies to disclose the specific risks they face related to ESG issues.

Comparability of Data – The reporting framework should assure that data are comparable across companies.

Board Approval – The Board of Directors must review and approve the firm's reporting submission.

Ability to Evolve – The reporting standards within the framework should be adjusted over time as new environmental, social and governance issues emerge. This will require an established process for updating standards in response to investor (and other stakeholder) demands.

Structured Data – The data submitted in this reporting framework should be in a format that is compliant with inline-XBRL or a successor technology and be machine-readable to leverage modern data analysis techniques.

Publicly Available – Reporting must be accessible to the public through the SEC and reporting company websites.

Enforcement – Congress should hold the SEC accountable for enforcing the disclosure rule, such as biennial reporting to Congress on reporting compliance, enforcement actions or other relevant methods for oversight. The SEC should be appropriately funded and resourced and, where additional expertise is needed, should work with other federal agencies to obtain such expertise.

Thank you for the opportunity to share these comments with the Committee.