

July 11, 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

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

We are writing to you as investor organizations that represent hundreds of investment firms and investment professionals that utilize sustainable investing in their portfolios. Sustainable investing and the incorporation of ESG criteria are already mainstream investing practice. As of year-end 2021, the US SIF Foundation [identified](#) \$8.4 trillion in total US assets under management (AUM) using sustainable investing strategies. This represents 13 percent—or 1 in 8 dollars—of the total US assets under professional management. Both professional investors and everyday, hard-working Americans want to align their investments with critical ESG criteria to minimize long-term risks to their investments and maximize returns. A [study](#) by Morgan Stanley found that 85% of all investors are interested in incorporating sustainable investing strategies into their investment practices. Large corporations are seeing the value as well. According to [IBM's annual CEO survey](#), “roughly 50% of CEOs and their executive teams now have compensation tied to sustainability goals, a significant jump from a year ago, when the figure was just 15%.”

The U.S. economy has changed dramatically over the last 40 years. The value of a company used to be significantly derived from its tangible assets- inventory, factories, etc. Now, [90% of S&P 500](#) value is attributed to intangible assets- intellectual property, patents, and a company's workforce. Investors need to be able to respond to these shifts in our economy with complete, comprehensive data about the risks and opportunities faced by the companies they own. Sustainable investment has emerged as a market response to our evolving economy. It is an investment discipline that considers environmental, social, and governance (ESG) criteria, such as the current and future impacts of climate change, rising sea levels and heat waves, the treatment of workers and communities, and corporate governance issues. These additional data points, alongside traditional financial data, help understand long-term competitive financial risks and opportunities. Not all sustainable investment strategies are the same, nor is the field a monolith. Investors use all kinds of data and strategies to meet their financial objectives.

It's clear that investors are already integrating sustainable investment practices, but the landscape of ESG data makes it hard to measure companies across industries or across the market. The [IBM 2023 CEO study](#) found that “while 95% of companies have operational ESG goals, only 10% have made significant progress toward meeting them.” According to the CEOs interviewed for the study, “tracking and measurement in the sustainability space is a huge issue.” Investors require the ability to understand the full picture of a company's risks, opportunities and efforts to

address these areas for the future. There is still significant work that needs to be done for disclosed information from businesses to reach the level of investor needs.

There can be real financial costs if ESG-related risks are not well managed. For example, the recent Norfolk Southern train derailment raised numerous concerns associated with the company's management and practices that may be considered ESG issues and affect investors. Following the derailment, Norfolk Southern's stock price dropped [10 percent](#)- indicating that a lack of oversight of these issues has real consequences for shareholder value. The economic impact of climate change is another risk investors need to fully understand. Climate change was the number one ESG issue for both asset managers and institutional investors in the US SIF Foundation's [2022 Trends Report](#) and has been one of the top issues for investors for more than a decade. 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. 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.

The Securities and Exchange Commission (SEC) has the ability and the mandate to require standardized disclosures from companies that would help investors better price the risks and opportunities presented by a warming climate or the health and safety of the U.S. workforce. In their January 2023 [comment letter](#) about the proposed climate risk disclosure rule, securities law experts reiterated the SEC'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."

Investors have shown support for both more information about corporations' long-term risks and opportunities and for the SEC to standardize disclosures. At the beginning of the 2023 proxy season, investors [filed](#) 542 shareholder resolutions that raised important issues with company management about ESG risks. Shareholder engagement is a critical tool for investors to raise important issues with management, other shareholders, the board, and the public. Moreover, resolutions need not come to a vote to be effective. Productive discussions between management and shareholders often resolve issues of concern before a shareholder proposal is ever filed. At the SEC, investors have submitted comments overwhelmingly in favor of more disclosure of data around [long-term risks generally](#), as well as data related specifically to [climate risks](#).

Investors have choices in the market. While they are not forced to invest in ESG-related funds, the market reflects the reality that accounting for long-term risks and opportunities is just good business. We hope that the Committee will consider the evidence we've laid out here and the alignment on responsible investment by retail and institutional investors alike and we appreciate your attention to this important issue.

Sincerely,

Ceres

Interfaith Center on Corporate Responsibility

U.S. Impact Investing Alliance

US SIF: The Sustainable Investment Forum

Cc: Members of the House Financial Services Committee