TOWARD A JUST AND SUSTAINABLE ECONOMY

Policy Recommendations for the Next Administration

US SIF

The Forum for Sustainable and Responsible Investment

About Us

US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable 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. US SIF members include investment management and advisory firms, mutual fund companies, asset owners, research firms, financial planners and advisors, broker-dealers, community investing organizations and nonprofit associations. The strategies to accomplish our mission include a broad array of member services, local and national convenings, and engagement with the media and policymakers.

US SIF is supported in its work by the US SIF Foundation, a 501(c)(3) organization that undertakes research and educational activities to advance the mission of US SIF. The Foundation publishes many reports and guides as well as a biennial *Report on US Sustainable and Impact Investing Trends*. The Foundation provides an online, in-person and virtual course on the Fundamentals of Sustainable and Impact Investment. In partnership with the College for Financial Planning, the Foundation offers the only sustainable investment designation in the United States, the Chartered SRI Counselor™ (CSRIC™).

Learn more at ussif.org.

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Executive Summary

US SIF: The Forum for Sustainable and Responsible Investment is the leading organization in the United States advancing sustainable investing across all asset classes. One of our key strategies for creating a more just and sustainable economy is engaging in public policy.

The United States is currently facing multiple large-scale problems. The coronavirus pandemic, racial injustice, economic inequality and climate change are crises that require urgent government action as well as meaningful private sector responses.

Sustainable investors have addressed critical environmental, social and governance (ESG) issues for decades. Sustainable investment strategies are used by a broad range of investors and have grown rapidly, accounting for more than one in four dollars under professional management.

Sustainable investors engage with companies to secure more sustainable policies and practices in those companies. Recently, there have been multiple developments focused on moving companies from a shareholder primacy model to one focused on multiple stakeholders.

The next administration has the opportunity to further catalyze these private sector trends and to set new rules of the road. Thus, our first recommendation is to create a **White House Office of Sustainable Finance and Business.**

Our recommendations, if implemented, will help achieve a more just and sustainable economy and provide a framework through which the private sector can contribute alongside government's leadership.

1 | CREATE A WHITE HOUSE OFFICE OF SUSTAINABLE FINANCE AND BUSINESS

- The **White House Office of Sustainable Finance and Business** will be a focal point in the administration to advance the continued growth of sustainable investment and accelerate the shift from a shareholder-centric company model to a multi-stakeholder model.

2 | APPOINT LEADERSHIP AT THE SEC AND DOL WITH SUSTAINABLE INVESTMENT EXPERTISE

- While there are multiple agencies that interact with the field of sustainable investment, the most critical ones, to date, have been the Securities and Exchange Commission and Department of Labor. The SEC Chair, Commissioners and division directors as well as the Secretary of Labor and the Assistant Secretary for Employee Benefits Security Administration (EBSA) should be knowledgeable about sustainable investment and use of ESG data.

3 | THE SEC SHOULD TAKE ACTION ON THE FOLLOWING POLICIES

- Enhance sustainable investment expertise inside the SEC by creating an external Advisory Committee to provide guidance and recommendations on current ESG trends.
- Create a new sustainable investment advisor position in the office of the SEC Chair who will advise division leadership and Commissioners.
- Mandate public company reporting of environmental, social and governance (ESG) issues.
- Reverse regulatory action limiting shareholder proposals.

- Reverse regulatory action hindering access to independent proxy advice.
- Reverse staff interpretations or legal bulletins weakening the ability of shareholders to file resolutions.

4 | THE DOL SHOULD TAKE ACTION ON THE FOLLOWING POLICIES

- Work with Congress to amend the ERISA law so that ESG considerations and proxy voting are permissible in retirement plans governed by ERISA and are recognized as part of a plan administrator's fiduciary duty.
- Reverse regulatory action limiting the inclusion of ESG factors in retirement plans.
- Reverse regulatory action discouraging retirement plan fiduciaries from proxy voting.

5 | THE FEDERAL THRIFT RETIREMENT BOARD SHOULD ACCELERATE IMPLEMENTATION OF A MUTUAL FUND WINDOW

- Encourage the Federal Thrift Retirement Investment Board to accelerate the implementation of the legislatively authorized mutual fund window option and include one or more sustainable investment options.

6 | WORK WITH CONGRESS TO APPROPRIATE ADDITIONAL FUNDS FOR THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND

- Accelerate the powerful work of CDFIs by providing $1 billion in CDFI Fund emergency grants in the next COVID relief legislation and annually each year going forward.

7 | TAKE ACTION TO ADDRESS THE CLIMATE CHANGE CRISIS

- Re-join the Paris Agreement and position the United States as a climate change leader.
- Create a new position of sustainable finance liaison at the EPA.
- The Federal Reserve should join the Network for Greening the Financial System.
- End fossil fuel subsidies.
- Embed environmental justice in climate crisis solutions.
- Reverse regulatory changes to the Clean Air Act, Clean Water Act and National Environmental Policy Act.

8 | TAKE ACTION TO ADDRESS ECONOMIC INEQUALITY

- Enact a minimum wage of at least $15 per hour and mandate paid sick leave.

Introduction

The next administration faces multiple crises. The coronavirus pandemic, racial injustice, economic inequality and climate change are challenges that require urgent action by the federal government and meaningful responses by the private sector.

Mobilizing the private sector can be achieved, in part, by making it the policy of the next administration to support sustainable investment and encourage the development of a stakeholder-centric approach to managing companies.

Sustainable investment[1] has become a core strategy for investors all over the world. Interest in and assets flowing to sustainable investment have exploded in the last decade. Since 1995, when the US SIF Foundation first measured the size of the US sustainable investment universe at $639 billion, assets have increased more than 25-fold, a compound annual growth rate of 14 percent. Total US-domiciled assets under management (AUM) using environmental, social and governance (ESG) strategies grew from $12.0 trillion at the start of 2018 to $17.1 trillion at the start of 2020, a 42 percent increase. Thirty-three percent—or 1 in 3 dollars—of all professionally managed assets in the US consider environmental, social and governance (ESG) factors.[i] More than 25 percent of all professionally managed assets in the United States consider environmental, social and governance (ESG) factors.

Globally, sustainable investing assets stood at $30.7 trillion at the start of 2018, a 34 percent increase in two years.[ii] The European Union, Australia, Canada, the United Kingdom and other countries have created sustainable finance plans. Many of the world's largest asset managers have signed on to the Principles for Responsible Investment. The notion that fiduciary duty requires the incorporation of ESG issues is increasingly mainstream.

Sustainable investors incorporate ESG issues into their investment processes to create competitive financial returns, generate social and environmental benefits, manage risk and fulfill fiduciary duties.

ESG issues include inequality, climate change, human rights, equal employment and diversity, sustainable agriculture, executive pay and anti-corruption. Sustainable investors were among the early voices urging corporate action and public policies to address the climate crisis. This year, they have spoken out on the coronavirus and racial injustice crises.[iii]

As shareholders, sustainable investors regularly engage with public companies about ESG issues, helping them improve their sustainability performance and mitigate negative impacts. Through the proxy process and by submitting resolutions that all shareholders vote on at company annual general meetings, they focus management attention on ESG issues.

Sustainable investors have also invested in underserved communities through community development banks, credit unions and loan funds in the United States and through small business lending and microfinance funds abroad. They have developed critical standard-setting organizations and influenced public policy.[iv] They have challenged the assumption that short-term shareholder return is the key relevant outcome for companies and advocated for a focus on a broader group of stakeholders.

In short, sustainable investors are leading the way towards a more sustainable and equitable society.

1. Sustainable investing may also be referred to as impact investing or responsible investing.

As a result of multiple influences, including investor engagement, academic research and consumer pressure, corporations have embedded more sustainable business practices. One indication of this is that 90 percent of S&P 500 companies published sustainability reports in 2019, up from 20 percent in 2011.[v]

Additionally, corporations are reconsidering the emphasis on short-term shareholder returns as their central priority. Recently, several organizations, including the Business Roundtable (BRT) and the World Economic Forum, have voiced support for moving from a shareholder-centric company model focused on short-term stock returns to a more inclusive model balancing the interests of workers, customers, communities and the environment with those of shareholders.[vi] This model is generally referred to as stakeholder capitalism.

While there is significant debate about whether the signatories of the BRT's Statement on the Purpose of a Corporation[vii] have started to move to a stakeholder model, the existence of the Statement invites sustainable investors, consumers and, most importantly, government, to insist that these commitments be made real.

In another sign of a shift in the expectations of companies, the number of B Corporations in the United States, which are legally required to consider the impact of their decisions on their workers, customers, suppliers and communities, has grown from 110 to 3,500 over the past decade.

The dramatic growth in sustainable investment and the interest in shifting to stakeholder capitalism creates an opportunity for the next administration to further catalyze these trends and to set new rules of the road.

And while the federal government must lead, the government should also set high expectations for the private sector and advance legislation and regulations that lead to a more sustainable private sector. Policies that support sustainable investment's continued growth will help ensure that capital aligns with broader policies aimed to address social and economic inequality and climate change.

US SIF offers the following recommendations to help achieve a more just and sustainable economy.

Recommendation One: Create a White House Office of Sustainable Finance and Business

The White House Office of Sustainable Finance and Business will be a focal point in the administration to advance the continued growth of sustainable investment and accelerate the shift from a shareholder-centric company model to a multi-stakeholder model.

Specifically, we recommend that the White House Office of Sustainable Finance and Business:

1) Work with federal departments, agencies and Congress to advance guidance, regulations and legislation to enable sustainable investment.
2) Educate relevant White House offices, particularly the Domestic Policy Council (DPC), National Economic Council (NEC) and Council of Economic Advisers, federal departments, including Commerce, Treasury, and Labor, and federal agencies, including the Securities and Exchange Commission (SEC) and the Environmental Protection Agency (EPA), about sustainable investment.
3) Collaborate with sustainable investment field-building institutions, investors and academics to develop a national strategy for US leadership in sustainable finance.

4) Convene companies and advocates for stakeholder capitalism to create broader engagement, share best practices and highlight corporate leadership.

5) In collaboration with federal agencies, undertake a government-wide audit of current activities, domestically and internationally, that promote corporate social and environmental responsibility and determine how to expand such activities.[viii]

We recommend that this office be led by an expert in sustainable investment, who has familiarity with stakeholder capitalism and an ability to forge partnerships among government, the private sector and civil society.

Additionally, the NEC, DPC and the Council of Economic Advisers should each designate a senior staff member who will liase with the Office of Sustainable Finance and Business.

Recommendation Two: Appoint Leadership at the SEC and DOL With Sustainable Investment Expertise

While there are multiple agencies that interact with the field of sustainable investment, the most critical ones have been the Securities and Exchange Commission and the Department of Labor. We ask the next administration to appoint leaders to these agencies who have the following attributes.

SECURITIES AND EXCHANGE COMMISSION (SEC)

SEC Commissioners, including the Chair and all division heads, should possess the following attributes:

- An investor-centric focus consistent with the SEC's mission of serving as the investor's advocate;
- Knowledge about the practice of sustainable investment and its role in fiduciary duty;
- Support for regulatory measures that enable rather than block the practice of sustainable investment;
- Familiarity with how investors use ESG data;
- A commitment to making Rule 14a-8, which governs the shareholder proposal process, accessible to more investors and more inclusive of proposals addressing ESG topics.

DEPARTMENT OF LABOR (DOL)

The Secretary of Labor and the Assistant Secretary for Employee Benefits Security Administration (EBSA) have significant influence over retirement savings policies. Characteristics essential to seek in these two DOL leadership positions include:

- An understanding that fiduciary duty for ERISA-governed retirement plans requires the consideration of relevant ESG data to help secure long-term benefits to plan participants and beneficiaries;
- Familiarity with how investors use ESG data;
- A commitment to allowing fiduciaries to use proxy voting as a meaningful way to ensure long-term benefits for plan fiduciaries;
- Support for regulatory measures that enable rather than block the practice of sustainable investment.

Recommendation Three: The SEC Should Take Action on the Following Policies

3A: ENHANCE SUSTAINABLE INVESTMENT EXPERTISE INSIDE THE SEC

We recommend that the SEC create an external Advisory Committee to provide guidance and recommendations on current ESG trends. Investors, issuers and subject matter experts should be members.

Additionally, the SEC should appoint a sustainable investment advisor who reports to the Chair and advises Commissioners and division leadership.

3B: MANDATE PUBLIC COMPANY REPORTING OF ESG ISSUES

Transparency is a core underpinning of a more inclusive economy. US SIF, along with other investors and domestic and global standard-setting organizations, has requested comprehensive and standardized ESG disclosure for more than a decade.[iv] Sustainability information provided on company websites alone is insufficient to address investor needs as it does not offer consistent or comparable information on material risks and opportunities. Investors need disclosure of the full range of ESG issues that could impact a company, the communities in which it operates, its employees and other stakeholders in order to make informed investment decisions.

A comprehensive framework for disclosure of ESG issues by public companies is needed. Investors and standard setting organizations have identified many issues that could impact a company and its stakeholders. We highlight three of these issues and their importance.

CLIMATE CHANGE: The SEC issued guidance on climate change disclosure in 2010, but enforcement ebbed during the Obama administration and has been non-existent since 2016. Thus, as we face a climate crisis, companies are not required to report on climate risks in a standardized way through their SEC filings. There is significant support for the SEC to require such reporting.

CORPORATE POLITICAL CONTRIBUTIONS: In the wake of the Supreme Court decision *Citizens United vs. Federal Election Commission*, investors have grown increasingly concerned about the lack of transparency around corporate political contributions and the potential legal, reputational and operational risks to companies and systemic risks to the economy of political spending.

In 2011, 10 prominent securities law professors filed a rulemaking petition[x] at the SEC calling for mandatory disclosure of corporate political contributions. More than 1.2 million comment letters were submitted—the vast majority in support of increased disclosure.[xi]

DIVERSITY (GENDER, SELF-IDENTIFIED RACE AND ETHNICITY OF EMPLOYEES, EXECUTIVE TEAM AND DIRECTORS) STATISTICS: Public demonstrations on racial justice and calls for diversity across the public and private sectors reinforce investors' desire for better board and corporation diversity metrics. The business case for diversity is well-established, and[xii] investors understand that diversity is critical for a well-managed company.

Disclosure of corporate diversity issues, such as information on gender, race and ethnicity, is material to investors, but this disclosure is not currently mandated. US SIF urges the SEC to: (1) require companies to disclose their EEO-1 reports publicly; and (2) require gender pay ratio reporting for companies.

To date, progress on broad, mandated ESG disclosure has been slow. The Dodd-Frank Wall Street Reform and Consumer Protection Act included several provisions for ESG disclosures, including conflict minerals, resource extraction payments and executive compensation.

In 2014, SEC Chair Mary Jo White launched the "Disclosure Effectiveness" review, which resulted in 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. During the 2019-2020 session, the House Financial Services Committee advanced various disclosure bills on ESG topics,[xiii] but few have received a floor vote, and none have been considered by the Senate Banking Committee.

In October 2018, investors representing more than $5 trillion in assets under management, including US SIF, submitted a rulemaking petition to the SEC.[xiv] The petition called on the SEC to develop a comprehensive framework for clear, consistent and comparable information relevant to companies' long-term risks and performance. The letter noted that "such a framework would better inform investors and would provide clarity to America's public companies on providing relevant, auditable and decision-useful information to investors."[xv]

3C: REVERSE REGULATORY ACTION LIMITING SHAREHOLDER PROPOSALS

Shareholder proposals filed through Rule 14a-8 of the Securities Exchange Act of 1934 are an essential tool for driving meaningful change at public companies. They have led to widespread adoption of sustainability reporting, enhanced water policies, accelerated adoption of non-discrimination policies for LGBTQ employees and increased board diversity. They remain a powerful force for ensuring that companies function as more responsible actors in civil society.

Average shareholder support for social and environmental issues has steadily increased, from 18.3 percent in 2010 to 26.8 percent so far in 2020. Significant vote totals in 2020 have occurred at Chevron on climate change lobbying disclosure (53.5 percent support) and J.B. Hunt Transport Services on reporting on climate change commitments (54.5 percent support). Additionally, investors' call for a new diversity assessment proposal received high marks (61.1 percent support) at Fastenal, which currently discloses nothing on its workforce composition. Also notable was majority support for a resolution at Johnson & Johnson (60.9 percent) for a report on the governance of its opioid-related risks.

Unfortunately, at the same time that ESG-focused shareholder proposals have experienced record levels of support, the SEC has diminished the ability of shareholders to file these proposals through staff bulletins and a new rulemaking.

The changes to Rule 14a-8, adopted[xvi] on September 23, 2020, will harm investors and ultimately the companies they own.[xvii] Among other changes, the changes dramatically increase the thresholds to file proposals and to resubmit them. The changes shift power from investors to company CEOs and management. They will limit individual retail investors' ability to engage in the shareholder proposal process and introduce needless complexity and confusion into the current, cost-efficient shareholder proposal process. In fact, 30 percent of environmental, social and sustainability proposals would have been excludable between 2010–2019 had the proposed changes been in place.[xviii]

3D: REVERSE REGULATORY ACTION HINDERING ACCESS TO INDEPENDENT PROXY ADVICE

The rule, released on July 22, 2020, codifies that furnishing proxy voting recommendations, research and analysis is considered to be engaging in a proxy solicitation, requiring substantial information and filing requirements. It also subjects proxy advisors to Rule 14a-9 liability for materially misleading statements or omissions.

The rule does not help institutional investors get higher quality information and thus better serve their clients. Instead, it unduly burdens investor access to independent proxy research[xix] and compromises the independence of an important data source.

3E: REVERSE STAFF INTERPRETATIONS OR LEGAL BULLETINS WEAKENING THE ABILITY OF SHAREHOLDERS TO FILE RESOLUTIONS

The SEC should rescind Staff Legal Bulletins 14I, 14J and 14K. US SIF urges the SEC to return to its 1998 interpretation of the ordinary business exemption (Rule 14a-8(i)(7)) and economic relevance (Rule 14a-8(i)(5)) to restore clarity and practicality to the evaluation of 14a-8 challenges.

Recommendation Four: The DOL Should Take Action on the Following Policies

4A: AMEND THE ERISA LAW TO ALLOW ESG CONSIDERATIONS AND PROXY VOTING IN ERISA GOVERNED RETIREMENT PLANS

In most cases, the Employee Retirement Income Security Act of 1974 (ERISA) protects participants in these plans by setting fiduciary standards for plan managers and sponsors. But the ability for fiduciaries to select plan options that utilize ESG criteria and engage in shareholder activities too often changes when a new administration comes into office. That is not good for fiduciaries, and it is unacceptable for plan participants.

The administration should work with Congress to amend the ERISA law so that ESG considerations and proxy voting are permissible in ERISA-governed retirement plans and recognized as part of a plan administrator's fiduciary duty. These changes would give fiduciaries and plan participants more long-term certainty.

4B: REVERSE REGULATORY ACTION LIMITING THE INCLUSION OF ESG FACTORS IN RETIREMENT PLANS

We urge that a final rule resulting from the "Financial Factors in Selecting Plan Investments" proposed rulemaking, announced on June 23, 2020, be reversed.[xx]

Though this proposal has not yet become a rule, if made final, it will adversely affect pension plan fiduciaries and participants.

The proposed rulemaking to revise the fiduciary standard for ERISA-governed retirement plans attempts to isolate ESG criteria from other financially material information in investment decisions and implies that all ESG criteria are non-financial.

An analysis of the public comments filed on this rulemaking showed 95 percent of all commenters opposed the proposal. Ninety-four percent of investment-related industry comments were in opposition. Firms opposing the proposal include Blackrock, Putnam Investments, Vanguard, T. Rowe Price and State Street.[xxi]

The proposal is out of step with professional investment managers, here and abroad, who increasingly analyze ESG factors precisely because of risk, return and fiduciary considerations. A growing body of evidence proves that investors do not have to pay more to align their investments with ESG criteria.[xxii]

The proposal will substantially burden fiduciaries who consider ESG factors or offer ESG investment options in their retirement plans. The proposed changes require additional documentation to justify why ESG factors are financially material. The proposal effectively prohibits ESG considerations in default investment options for plans (Qualified Default Investment Alternatives, or QDIA), the fastest-growing segment in retirement plans.

4C: REVERSE REGULATORY ACTION DISCOURAGING RETIREMENT PLAN FIDUCIARIES FROM PROXY VOTING

We urge that a final rule resulting from the "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights" proposal, announced on August 31, 2020, be reversed.[xxiii]

Though this proposal has not yet become a rule, if made final, it will adversely affect pension plan fiduciaries and participants.

The proposed rule will reduce proxy voting, especially on environmental and social issues. It sets up a dynamic wherein ERISA funds will be encouraged not to vote most proxies or defer to corporate management recommendations when they vote, out of fear of becoming subject to regulatory investigations.

While purporting to clarify duties pertaining to proxy voting, the proposal 1) establishes onerous obligations on fiduciaries to demonstrate a proxy vote's "expected economic benefit" to the plan for any vote that departs from management's recommendations, and 2) includes an inappropriate ban on proxy voting where economic benefit cannot be demonstrated or when the economic benefit is too small to impact plan performance.

Recommendation Five: The Federal Thrift Retirement Board Should Accelerate Implementation of a Mutual Fund Window

The Federal Thrift Savings Plan (TSP) is the nation's largest retirement plan, managing $612 billion in assets for more than 5.9 million federal employees and retirees, including military personnel. Yet, millions of our military personnel and government employees working to protect the interests of the United States do not have an opportunity to invest their retirement savings in sustainable investment options.

The Thrift Savings Plan Enhancement Act of 2009 granted the Federal Retirement Thrift Investment Board, which oversees the TSP, the authority to establish a Mutual Fund Window in addition to the TSP's current investment offerings. It took until July 27, 2015, for the Thrift Board to approve the option of providing a mutual fund window offering enrollees new investment options. But it has yet to push the change across the finish line.

Choosing where to invest retirement savings is one of the most powerful decisions an individual can make. We urge the administration to encourage the Thrift Board to accelerate plans to implement the mutual fund window, including one or more sustainable investment options. Inclusion of these options would allow federal employees to participate in the same kind of investment options widely accessible to other public and private sector employees.

Recommendation Six: Work with Congress to Appropriate Additional Funds for the Community Development Financial Institutions (CDFI) Fund

Community investing has long been a core part of the sustainable investing ecosystem and sustainable investment portfolios. Community Development Financial Institutions (CDFIs) play a critical role in creating a more inclusive economy by providing fair and transparent financing, as well as financial education, to people and communities underserved by mainstream financial institutions. CDFIs are dedicated to delivering responsible, affordable lending to help low-income, low-wealth and other disadvantaged people and communities join the economic mainstream. Nearly 1,200 certified CDFIs are at work in all 50 states, the District of Columbia, Guam and Puerto Rico and can be found in rural and urban areas and indigenous communities.

The CDFI Fund has been at the forefront of responding to structural inequities in our economy. Since its inception, the CDFI Fund has provided more than $3.9 billion through various monetary award programs, $61.0 billion in tax credits through the New Markets Tax Credit Program and has guaranteed more than $1.6 billion in bonds through the CDFI Bond Guarantee Program.

To accelerate the powerful work of CDFIs, we recommend $1 billion in CDFI Fund emergency grants in the next COVID relief legislation and annually each year going forward.

Recommendation Seven: Take Action to Address the Climate Change Crisis

Sustainable investors have been addressing climate change for decades, and it remains a priority issue. The US SIF Foundation's *Report on US Sustainable and Impact Investing Trends 2020* identified climate change as the most important specific ESG issue considered by money managers, comprising $4.2 trillion in assets. This is a 39 percent increase from 2018.[xxiv] Moreover, shareholders concerned about climate risk filed more than 60 resolutions on the subject in 2020 and negotiated several company commitments to disclose and reduce their greenhouse gas emissions.

The United Nations calls climate change "the defining issue of our time…From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly."[xxv]

The number of short-sighted regulatory and policy rollbacks to the Clean Air Act and other climate directives is unprecedented.[xxvi] Today the United States has little standing on climate action. Without meaningful action, adapting to climate change impacts in the future will be more difficult and costly.

US SIF urges the next administration to take the following policy actions on climate change:[2]

7A: RE-JOIN THE PARIS AGREEMENT AND POSITION THE UNITED STATES AS A CLIMATE CHANGE LEADER

According to 2020 data from the Union of Concerned Scientists, the United States is the world's second-largest carbon emitter after China. Together, the two nations account for 42 percent of the world's carbon dioxide emissions.[xxvii]

Rather than join the global community in a concerted effort to reduce carbon emissions, the United States withdrew from the Paris Agreement, effectively tabling its commitment to reduce greenhouse gas emissions by 26 to 28 percent by 2025.

The United States is already paying a high economic price from the ravages of severe drought, wildfires and storms associated with increased atmospheric levels of carbon. Rather than retreat from the call to protect current and succeeding generations from the significant implications of further, unrestrained climate change and rising sea levels, it is time for the United States to lead the country and the world on climate change.

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2. Robust climate change disclosure is urgently needed and included in our section on actions needed by the SEC.

The United States should re-join the Paris Agreement and adopt a comprehensive national strategy to address the climate crisis. This includes:

- **Achieve net-zero CO2 emissions before 2050**
  Establishing a clear national strategy and goal is vital to transitioning to a low-carbon economy and reaching the target of net-zero carbon dioxide emissions while dramatically reducing emissions of other greenhouse gases. Federal leadership will allow investors and the private sector to make long-term choices, build a sustainable economy and mitigate the worst impacts of climate change.
- **Establish a national clean energy standard**
  A federal clean energy standard (CES) will drive the adoption of low- and zero-emission technologies in the power generation sector. A technology-neutral CES will allow for innovation and investment in the clean energy sector.
- **Invest in clean energy technology**
  The administration should incentivize the deployment of clean technology throughout the economy. With Congress, establish a federal funding mechanism to finance emerging clean technologies that address the most challenging emission-reduction challenges.
- **Rebuild US infrastructure, placing a priority on carbon mitigation and climate resilience**
  The nation's infrastructure, from roads and bridges to schools and the electric grid, has fallen in disrepair and needs federal investment to rebuild. Any infrastructure initiative must prioritize the climate change impact of projects and ensure that traditionally underserved and minority communities benefit from federal investments.
- **Establish a tax on carbon emissions**
  Implementing a carbon emissions tax is a market-based approach to reducing greenhouse gas pollution. A well-designed carbon tax should progressively increase over time, and revenues from the tax should be reinvested in the economy as dividends to US citizens.

7B. CREATE A NEW POSITION OF SUSTAINABLE FINANCE LIAISON AT THE EPA

This position should coordinate with financial regulators, in line with a recommendation in the recent report by the Commodity Futures Trading Commission that all relevant federal financial regulatory agencies incorporate climate-related risks into their mandates and develop strategies for integrating these risks in their work, including into their existing monitoring and oversight functions.[xxviii] This position should also liaise with the White House Office of Sustainable Finance and Business, proposed above.

7C: THE FEDERAL RESERVE SHOULD JOIN THE NETWORK FOR GREENING THE FINANCIAL SYSTEM

The Federal Reserve has not adequately anticipated or proactively addressed potential risks in our financial system. The recent Great Recession is one example. The Fed's failure to consider the impact of climate change on the entities it oversees is another.

Other central banks are recognizing that climate change is a systemic risk. The Bank of England plans to stress-test insurers and banks for their ability to cope with the physical and transition risks of climate change. The Bank of Canada has started a multi-year research program on the issue.

The next administration should urge the Federal Reserve to join the Network for Greening the Financial System (NGFS).[xxix] Joining the NGFS will allow the Federal Reserve to be part of the global response to meet the Paris Agreement goals. Membership in the NGFS would not only signal this country's

commitment to joining the global community to confront the climate change crisis, but would also enable the Fed to address the impact of climate change from the viewpoint of the entire US economy, providing incentives to support a transition to a low-carbon economy.[xxx]

7D: END FOSSIL FUEL SUBSIDIES

Ending fossil fuel subsidies is a critical step toward reversing the growth of greenhouse gas emissions. A May 2019 International Monetary Fund working paper[xxxi] estimated global fossil fuel subsidies at $4.7 trillion (6.3 percent of global GDP) in 2015, with coal and petroleum together accounting for 85 percent of global subsidies. The United States was the second-largest subsidizer ($649 billion), behind China's $1.4 trillion in fossil fuel subsidies. The paper estimated that efficient fossil fuel pricing in 2015 would have lowered global carbon emissions by 28 percent and fossil fuel-related air pollution deaths by 46 percent. It would also have increased government revenue by 3.8 percent of GDP.

These subsidies distort demand for high carbon energy, encouraging its consumption when alternatives are becoming more and more competitive, efficient and reliable. Subsidies to fossil fuel industries have serious impacts on public health, cause environmental pollution through extraction and associated infrastructure and have generally increased the impact and costs of climate change.

A recent International Energy Agency report[xxxii] noted that "periods of low fuel prices typically represent a golden opportunity to pursue the pricing reforms that are the only durable way to eliminate consumption subsidies… As economic conditions improve, there needs to be a redoubling of efforts to phase out fossil fuel subsidies to ensure that recoveries are sustainable."

7E: EMBED ENVIRONMENTAL JUSTICE IN CLIMATE CRISIS SOLUTIONS

Low-income communities and Black, Indigenous and People of Color often bear the brunt of negative environmental impacts. In addition, these communities have historically not been consulted by the federal government when it considers environmental policy.

We recommend the following measures to advance environmental justice:[xxxiii]

- Establish an Office of Climate and Environmental Justice Accountability within the Council on Environmental Quality;
- Require that relevant rules and regulations with significant impacts on frontline communities undergo an additional level of review to mitigate negative effects.

7F: REVERSE REGULATORY CHANGES

- Restore regulations under the **Clean Air Act (CAA)** that limit greenhouse gas emissions including fuel standards, tailpipe emission standards, methane emission reporting and limitations, hydrofluorocarbon protections and environmental review processes.
- Restore environmental regulations designed to mitigate or adapt to climate change, including restrictions on drilling, fracking and coal leases on wildlife refuges, Indian lands, public lands, national forests and national monuments.
- Restore the **Clean Water Act (CWA)** to continue working toward improving our waters to be clean and healthy.

- Restore the **National Environmental Policy Act (NEPA)** to its role as a preventive and procedural tool applied to federal action and federally funded action. NEPA serves as an assessment tool and requires a detailed statement of the environmental impact in every major federal action affecting the human environment. Restoring NEPA is an essential tool to ensure consideration of minority and disproportionately-affected communities' input.

Recommendation Eight: Take Action to Address Economic Inequality

Sustainable investors have addressed workplace issues for many years, including diversity and pay disparities. Institutional asset owners reported at the beginning of 2020 that they considered equal employment opportunity and diversity criteria across $1.5 trillion in assets and other labor issues across $1.6 trillion[xxxiv] Earlier this year, 335 investors representing $9.5 trillion in aggregate assets under management signed the "Investor Statement on Coronavirus Response." It urges the business community to assist their employees and thereby help maintain the social fabric of communities in a time of grave crisis. Specifically, it encourages companies to provide paid leave to all employees, including part-time and contract employees, prioritize health and safety, maintain employment levels and supplier/customer relationships as much as possible and to restrain executive compensation during the crisis.[xxxv]

Moreover, over the last three years, sustainable investors have filed more than 200 shareholder proposals focusing attention on ending de facto workplace discrimination on the basis of ethnicity and sex as well as other fair labor issues.

The Business Roundtable's Statement on the Purpose of the Corporation[xxxvi] notes that "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity." The statement details a commitment to "investing in employees. This starts with compensating them fairly and providing important benefits."

As noted throughout this paper, sustainable investors engage with companies to improve their practices, including those that address economic inequality. However, the American workforce should not be dependent on successful shareholder initiatives or their employer's benevolence for core protections such as a higher minimum wage and paid sick leave. The federal government needs to act.

MINIMUM WAGE

The $7.25 hourly federal minimum wage, unchanged since 2009, translates into a yearly income of $15,000—far below the poverty line for families of two or more people. Furthermore, the United States is the only industrialized country where employers are not required to provide paid sick leave. This country cannot solve economic inequality until it addresses these fundamental problems.

The United States must move to a minimum wage of at least $15 an hour. A $15 minimum wage is either in place or required by a future date in cities and states, including Seattle, San Francisco, New York and New York City, and California. And companies are following suit, with Amazon and Target announcing $15 minimum wages. Other companies, like McDonald's and Walmart, are moving toward a $15 wage.

PAID SICK LEAVE

Attention to worker health is an essential component of a healthy and resilient economy. Mandated paid sick leave is a realistic public policy objective, as evidenced by the Families First Coronavirus Response Act (FFCRA), signed into law March 18, 2020. The FFCRA is a temporary measure, effective until December 31, 2020. Lessons learned from the FFCRA should be used to structure a permanent paid leave law.

According to the National Conference of State Legislators, 13 states and Washington, DC have enacted laws to require paid sick leave.

The need for mandatory paid sick leave is clear. Paidsickdays.org reports that more than one in four private-sector workers—and seven in 10 of the lowest-wage workers—do not have paid sick days. Employees without paid sick days are 1.5 times more likely than those with paid sick days to report going to work with contagious illnesses like the flu or a viral infection—and risk infecting others. COVID-19 has highlighted the importance of paid sick leave for all workers.

Conclusion

Investors, from large institutions to individuals, use sustainable investment strategies to generate positive social and environmental impacts. Sustainable investors also catalyze companies to improve their policies and practices.

Implementation of our recommendations will enhance the private sector's engagement on critical social and environmental issues by advancing the practice of sustainable investment and accelerating the shift to stakeholder management of companies.

We look forward to working with the next administration to advance these recommendations.

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