July 10, 2019

Chairwoman Carolyn Maloney
Ranking Member Bill Huizenga
Members of the Subcommittee
U.S. House Committee on Financial Services
Subcommittee on Investor Protection, Entrepreneurship and Capital Markets
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairwoman Maloney, Ranking Member Huizenga and Members of the Subcommittee,

The Principles for Responsible Investment (PRI) welcomes the opportunity to submit this statement for the record for the Subcommittee on Investor Protection, Entrepreneurship and Capital Markets' hearing entitled, "Building a Sustainable and Competitive Economy: An Examination of Proposals to Improve Environmental, Social and Governance Disclosures."

The PRI is the world's leading initiative on responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Launched in New York in 2006, the PRI has grown to over 2,400 signatories, managing over $86 trillion assets under management (AUM).[1] The U.S. is the PRI's largest market, with 450 signatories investing over $42 trillion AUM.[2]

The PRI commends the Subcommittee for calling this hearing to consider legislative approaches to require issuer disclosure of ESG data. Investors need access to consistent, comparable disclosure of material ESG data to make informed investment decisions. The bills under consideration at today's hearing represent significant steps forward to address investors' needs in this area. Each of these bills would facilitate investor integration of material ESG factors into their investment decisions and therefore, as the evidence suggests, improve risk adjusted returns.

ESG FACTORS ARE MATERIAL

Responsible investing requires integration of material ESG factors. Increased public transparency and disclosure allows investors to mitigate risks and capitalize on opportunities, increasing the long-term value of their investments.

[1] As of 01 May 2019
[2] As of 01 July 2019

PRI US, Inc
Registered office: 45 Rockefeller Plaza, Suite 2000
New York, NY 10111
T: +212 332 3437 W: www.unpri.org E:info@unpri.org

A meta-study by Deutsche Asset & Wealth Management and the University of Hamburg, found "62.6% of studies revealed a positive correlation between ESG investing and financial performance".[3] A CFA Institute survey on ESG integration found ESG momentum strategy outperformed the MSCI World Index by 16.8%, and the MSCI US Index by 18.8%.[4] For equity stocks, those receiving ESG scores in the top third of the rankings outperformed the bottom third by 18 percentage points.[5]

Another report analyzed stocks by industry and found that incorporating ESG factors into investment strategies can produce higher risk-adjusted returns, and could mitigate potential risks, especially in the energy sector.[6] Methane management in the oil and gas industry is an economic opportunity that investors "increasingly view…as a proxy for the effectiveness of a company's operational and climate-risk management."[7]

These are just a handful of examples from the growing body of research that shows that ESG factors are material investment considerations.

SUMMARY OF THE PRI'S POSITION

When investors sign the PRI, they agree to a set of activities to incorporate ESG considerations into their investment practices. Investors' large, and growing, participation in the PRI reflects the increasing acknowledgment that ESG factors are material investment factors. Increased ESG disclosure will help investors better evaluate issuers' risk exposures, strategic plans to respond proactively to climate change and income inequality, and potential liabilities, such as tax liabilities, that can interfere with shareholder returns. Unfortunately, current Securities and Exchange Commission (SEC) disclosure requirements do not explicitly require corporate disclosure of material ESG factors.

The SEC has authority to require that issuers disclose ESG information but has failed to do so. In fact, the SEC issued Guidance in 2010 to clarify public companies' obligations to disclose climate-related risks. Unfortunately, that Guidance has not resulted in a meaningful improvement in the information available to investors.

---

[3] Deutsche Asset & Wealth Management, the University of Hamburg, and Principles for Responsible Investment, *ESG & Corporate Financial Performance: Mapping the global landscape*, December 2015. https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf

[4] MSCI ESG Research and Principles for Responsible Investment, *The PRI's ESG and Alpha Study based on MSCI ESG Research Analytics and Data*, February 2018, in the briefing paper: "Financial Performance of ESG Integration in US Investing." This briefing paper is based on three empirical studies that provide important insights on ESG materiality in the US. A May 2017 CFA Institute survey on ESG integration, the backdrop for this paper, reinforced that a proven link between ESG factors and financial performance would be among the top motivating reasons for those US investors that have not done so yet to adopt ESG integration in their investment practice. Performance data period from January 2008 to middle of 2017. https://www.unpri.org/investor-tools/financial-performance-of-esg-integration-in-us-investing/2738.article.
"Momentum investing involves a strategy to capitalize on the continuance of an existing market trend." https://www.investopedia.com/terms/m/momentum_investing.asp

[5] BofA Merrill Lynch Global Research, *BofA Merrill Lynch Global Research's ESG in Equities Investing Study*, June 2017, in the briefing paper: "Financial Performance of ESG Integration in US Investing." Performance data period 2005 to 2015. https://www.unpri.org/investor-tools/financial-performance-of-esg-integration-in-us-investing/2738.article.

[6] PRI Academic Research RI Quarterly: The Next Frontier of Responsible Investment, *How does ESG Investing Affect Financial Performance,* January 2017. This article was based on a research paper titled, "ESG Factors and Risk-Adjusted Performance: A New Quantitative Model" by Kumar Nallan Chakravarthya et al. The paper's main argument centres on the belief that the incorporation of ESG factors provides companies with lower volatility in their stock performance when compared with their peers in the same industry. https://www.unpri.org/academic-research/how-esg-investing-affects-financial-performance/548.article

[7] Ceres, Environmental Defense Fund, Principles for Responsible Investment, *Implementing the TCFD recommendations for oil and gas methane disclosure*, October 2018. This paper provides support and guidance to oil and gas companies and their investors on how to put the TCFD framework into practical use for disclosure on methane emissions. This paper includes guidance on the risks and opportunities of methane, recommended disclosures across TCFD's four-part structure, and real-world examples of what methane reporting in these four categories looks like today. https://www.unpri.org/climate-change/implementing-tcfd-recommendations-for-oil-and-gas-methane-disclosure/3787.article

Private market actors in the U.S. and internationally have developed voluntary ESG disclosure frameworks, some of which are widely used by market participants. This practice, however, has led to inefficiencies. Because there are multiple different disclosure frameworks that companies may choose to base their disclosures on, the information available to investors is often not consistent or comparable and, therefore, difficult for investors to systematically integrate into investment processes. It is also expensive for companies who choose to devote the resources to the production and regular updating of multiple ESG reports under different disclosure frameworks.

Since attempts to institute voluntary disclosure framework have not resulted in the production of consistent, comparable ESG data and the SEC is not showing any signs that it will act to mandate ESG disclosure, we believe Congressional action is necessary to mandate public company disclosure of ESG data.

Today, the Committee will consider several bills that aim to do just that. For example, the Climate Risk Disclosure Act of 2019[8], introduced by Representative Casten and Senator Warren, directs the SEC to issue rules requiring companies to disclose information about their exposure to risks caused by climate change. It would provide clarity on disclosures needed in relation to climate change, enabling global investors to better understand climate-related physical and transition risks.

Similarly, the Committee will consider bills that require public company disclosure of political spending, human rights risks and impacts, and tax obligations. Each of these bills would facilitate investor integration of material ESG factors into their investment decisions.

ESG DISCLOSURE PETITION

The PRI, along with institutional investors with more than $5 trillion in assets under management, submitted a petition to the SEC last year urging the Commission to undertake a rulemaking pursuant to Rule 192(a) of the SEC's Rule of Practice to develop a comprehensive framework requiring issuers to disclose identified ESG aspects of each public reporting company's operations.[9]

The petition:

- Calls for the Commission to initiate notice and comment rulemaking to develop a comprehensive framework requiring issuers to disclose identified ESG aspects of each public-reporting company's operations;
- Lays out the statutory authority for the SEC to require ESG disclosure;
- Discusses the clear materiality of ESG issues;
- Highlights large asset managers' existing calls for standardized ESG disclosure;
- Discusses the importance of such standardized ESG disclosure for companies and the competitive position of the U.S. capital markets; and
- Points to the existing rulemaking petitions, investor proposals, and stakeholder engagements on human capital management, climate, tax, human rights, gender pay ratios, and political spending, and highlights how these efforts suggest, in aggregate, that it is time for the SEC to bring coherence to this area.

The Commission has not taken any steps to act on this petition. As a result, the PRI strongly supports a legislative approach to require corporate disclosure of ESG information in 10-K filings.

[8] House of Representatives Financial Services Subcommittee on Investor Protection, Entrepreneurship and Capital Markets, July 2019. https://financialservices.house.gov/uploadedfiles/bills-116pih-climate.pdf
[9] United States Securities and Exchange Commission, Comments on Request for rulemaking on environmental, social, and governance (ESG) disclosure, [File No. 4-730], October 2018. https://www.sec.gov/comments/4-730/4-730.htm

THE U.S. LAGS BEHIND ON ESG DISCLOSURE

The U.S. is behind in addressing the financial impacts of climate change and capitalizing on the investment opportunities that go along with integrating ESG factors. The competitiveness of U.S. capital markets and our ability to attract foreign investors requires affirmative action to require ESG disclosure and facilitate integration into capital allocation decisions.

The European Union Non-Financial Reporting Directive requires large companies, with more than 500 employees, based in the EU to disclose information on how they implement policies in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards.

The European Commission's Technical Expert Group recently published its Technical Report on EU Taxonomy, which is an assessment of economic activities across eight sectors and the environmental impacts of those activities, including climate change mitigation and adaptation, pollution and protection of natural resources.[10] The EU taxonomy is a tool to help investors understand whether an economic activity is environmentally sustainable. The PRI supports the taxonomy as it creates a common language between investors, issuers and policymakers, and identifies opportunities to assess a company's performance against its environmental impact.[11]

In April 2018, the Government of Canada announced the creation of the Expert Panel on Sustainable Finance, tasked with building on the work of similar initiatives around the world, including the Task Force on Climate-related Financial Disclosures, and developing recommendations on the types of finance and investment structures that will help build the low-carbon economy. The Expert Panel released the final report this year with 15 recommendations for achieving sustainable finance, including Recommendation 8: Embed climate-related risk into monitoring, regulation and supervision of Canada's financial system, and Recommendation 10: Promote sustainable investment as 'business as usual' within Canada's asset management community.[12]

In 2016, seven Chinese ministries issued Guidelines for Establishing a Green Financial System in China. They aim to encourage awareness of environmental risks, clarify the definition and implementation methods of green investment, encourage the creation of green funds, improve the environmental performance of assets and enhance green and sustainable growth. This was followed by the issuance of Green Investment Guidelines in November 2018 by the Asset Management Association of China, which encourage institutional investors to accelerate the development of green and sustainable investment practices and enhance sustainable economic growth.[13]

---

[10] European Commission Technical Expert Group, Technical Report on EU Taxonomy, June 2019. "The report sets out the basis for a future EU taxonomy in legislation. The report contains technical screening criteria for 67 activities across 8 sectors that can make a substantial contribution to climate change mitigation; a methodology and worked examples for evaluating substantial contribution to climate change adaptation; guidance and case studies for investors preparing to use the taxonomy." https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

[11] Principles for Responsible Investment, PRI Investor Briefing on EU Sustainable Finance Taxonomy, June 2019. https://www.unpri.org/Uploads/d/r/v/priinvestorbriefingeusustainablefinancetaxonomy_931519.pdf

[12] Government of Canada, Expert Panel on Sustainable Finance, April 2018. Final Report issued June 2019. The report includes 15 recommendations for Canada's transition to a low-carbon economy for government, private sector and businesses. https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html

[13] Principles for Responsible Investment, PRI and UNEP FI'S Response to the AMAC Draft Guidelines on Green Investment. https://d8g8t13e9vf2o.cloudfront.net/Uploads/j/i/w/priandunepfiresponsetoamacgreeninvestmentguidelines_287617.pdf

International Organization of Securities Commissions (IOSCO) issued a statement in January "setting out the importance for issuers of considering the inclusion of environmental, social and governance (ESG) matters when disclosing information material to investors' decisions."[14] It outlines the frameworks currently available for ESG disclosure, including the Financial Standards Board's Task Force on Climate-Related Disclosures (TCFD), Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI) and Integrated Reporting (IR). The SEC did not sign this statement.

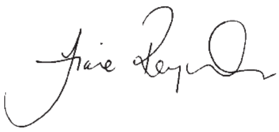
***

On behalf of the PRI, I commend the Subcommittee for calling this hearing to consider legislation to require public companies to disclose ESG factors. Today's hearing represents a major step forward in U.S. policymaking toward advancing responsible investing in the U.S. The PRI welcomes the opportunity to work with the Committee to continue improving the bills considered today as the legislative process moves.

For further conversation and follow-up, please contact our Washington, DC based team:

- Heather Slavkin Corzo, Head of U.S. Policy: heather.slavkin.corzo@unpri.org
- Colleen Orr, U.S. Policy Analyst: colleen.orr@unpri.org

Yours sincerely,



Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

[14] IOSCO, Statement on Disclosure of ESG Matters by Issuers, January 2019. IOSCO Principle 16 states, "[w]ith regard to this Principle, IOSCO emphasizes that ESG matters, though sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions." A footnote states, "U.S. Securities and Exchange Commission has not voted on the publication of this statement. The statement should not be viewed as an expression of the Commission's views or an endorsement by the Commission." https://www.iosco.org/library/pubdocs/pdf/IOSCOPD619.pdf