

The Fund-Management Industry Now Wants the US to Take the Lead on ESG Investing—Here's What It Says Biden Should Do

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By Eric J. Pan

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President-elect Joe Biden clearly plans to recalibrate how the United States engages on key international issues, especially climate change. One immediate place to start: promote a global regulatory framework for corporate disclosures on environmental, social, and corporate governance (ESG) factors.

Investors are clamoring for strategies that will advance climate goals, and investment funds are well-positioned to deliver trillions of dollars of investment capital into the US economy to meet those goals. The missing link is consistent and robust corporate disclosure to give investors the ability to make those choices.

This call to action by the Investment Company Institute (ICI) is a new posture for the Institute and the \$34 trillion industry it represents.

Financial markets will play a vital role in addressing climate change, but investors need reliable, comparable information to make critical investment decisions.

Information is the lifeblood of fair, efficient, and transparent markets. While some companies are making the effort to describe how they may be contributing to climate change, they are not always providing this information in a useful way for investors. Right now, the information is too fragmented, inconsistent, or vague. Markets need a common approach to disclosure that reflects how public companies' activities affect the climate.

That's why investor demand and the impetus of climate change policies are sparking a flurry of global activity toward developing competing disclosure standards on climate-related issues.

In recent years, the United States has largely watched from the sidelines while policymakers in Europe, Asia, and elsewhere introduce legislation and propose international standards to direct financial markets to support ESG objectives. Nongovernmental entities on both sides of the Atlantic are also forging ahead, creating the risk of clashing and unworkable disclosure regimes that spread confusion at a time when we need clarity and consensus.

We must do better. The Securities and Exchange Commission (SEC), for example, has the expertise in disclosure and the authority to lead work on a streamlined global disclosure reporting standard for ESG and climate-related risks. The rest of the Biden administration should support the work of the SEC and encourage adoption of these standards at home and abroad.

There's important work already underway that can guide this effort. In recent years, investors and fund managers have increasingly sought "decision useful" ESG information from companies—helpful in guiding complex, daily choices by fund managers who are tasked with investing for the benefit of their shareholders and in accordance with the fund's own objectives and disclosures.

Key bodies such as the Task Force on Climate-Related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB) have undertaken important work to develop recommendations and standards on how companies should report this information. Their work is so significant that the members of the Investment Company Institute, who manage more than \$34 trillion in assets, on Monday formally announced support of these approaches, calling on US public companies to provide ESG disclosure consistent with TCFD recommendations and SASB standards.

We'll get one chance to get this right. The Biden administration can seize on this momentum to provide leadership and perspective in discussions with other international regulators to work toward a uniform, global standard.

Announcing support for TCFD and SASB and a call for a consistent global standard for ESG disclosure should be a priority for the administration's first 100 days. It is an opportunity to follow developments set by the market-driven approach of public companies and investors and advance the work to provide a global framework. Achieving this goal will help streamline how we analyze climate risk and better serve the needs of investors—individual and institutional alike—and advance an important part of the Biden administration's priorities.

Climate and ESG-related issues will shape financial markets and investing for generations. A strong, global framework that guides companies on what—and how—to disclose on climate, social issues, and governance can help ensure financial market participants have the most pertinent, up-to-date, and clearest information to help efficiently allocate capital. This, in turn, will help fuel economic growth and build wealth for workers and families.

Only US leadership can make this happen.

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