February 24, 2021

The Honorable Maxine Waters
Chair
Committee on Financial Services
U.S. House of Representatives
2221 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
2004 Rayburn House Office Building
Washington, DC 20515

The Honorable Brad Sherman
Chair
Subcommittee on Investor Protection,
Entrepreneurship & Capital Markets
U.S. House of Representatives
2181 Rayburn House Office Building
Washington, DC 20515

The Honorable Bill Huizenga
Ranking Member
Subcommittee on Investor Protection
Entrepreneurship & Capital Markets
U.S. House of Representatives
2232 Rayburn House Office Building
Washington, DC 20515

Dear Chairs Waters and Sherman and Ranking Members McHenry and Huizenga:

Americans for Financial Reform (AFR) and Public Citizen appreciate the work of the Financial Services Committee and the Investor Protection, Entrepreneurship and Capital Markets Subcommittee to make our capital markets more fair, transparent, and efficient. We would like to take this opportunity to submit the following comments on the hearing entitled, "Climate Change and Social Responsibility: Helping Corporate Boards and Investors Make Decisions for a Sustainable World." AFR is a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups focused on financial regulation and reform; and Public Citizen is a nonprofit consumer advocacy organization that champions public interest in government.

Capital markets cannot be fair and efficient if investors are not adequately informed of material risks and opportunities of prospective offerings in the marketplace. In recent years, it has become clear that environmental, social, and governance (ESG) factors are financially material, and investors need to consider them when making investment decisions, voting on shareholder proposals, or otherwise engaging with investee companies.[1] Unfortunately, current practices around ESG disclosure are insufficient to properly inform investors of the extent that ESG risks are present in many mainstream financial products and securities.

To better quantify ESG risks within an individual stock or portfolio, investors need greater access to ESG-related disclosures and advanced sustainability metrics. By mandating a standardized, clear, and verifiable ESG disclosure regime, the Securities and Exchange Commission (SEC) can protect investors while also forcing companies and financial institutions to improve their identification and

[1] Tyler Gellasch and Lee Reiners, "From Laggard to Leader: Updating the Securities Regulatory Framework to Better Meet the Needs of Investors and Society," Global Financial Markets Center, Duke Law, 2021. https://web.law.duke.edu/sites/default/files/centers/gfmc/From-Laggard-to-Leader.pdf

management of ESG risks and opportunities—ultimately leading to a more sustainable economy and financial system.

Climate-related risks pose an existential threat to the stability of the financial system and the retirement savings of millions of American workers and retirees.The physical risks of climate change and the transition risk from rapid decarbonization are well documented,[2] and regulators must move quickly to implement mandatory processes and frameworks to identify, quantify, and disclose these risks to investors. The *Climate Risk Disclosure Act* would enlist the SEC to require public companies to disclose more information about their exposure to climate related risks—protecting investors and the financial system while encouraging new investments in clean energy, manufacturing, and transportation.

Our country faces urgent challenges with respect to racial and economic justice, public health and healthcare disparities, unemployment, fair worker treatment and wages, and even support for democracy itself. Investors deserve to know how their investee companies treat the planet, their workers, customers, and how they view their role in our democracy that was violently tested on January 6th, 2021. Legislation like the *Shareholder Political Transparency Act of 2021*, the *Greater Accountability in Pay Act*, and the *Improving Corporate Governance Through Diversity Act of 2021* would provide critical public disclosures of corporate political spending, wages, and board diversity —factors that are important not only to predict financial performance, but also to identify the impact of the investment on the real economy and society.

AFR is appreciative that the subcommittee is considering this important slate of legislation, and we encourage you to continue working with policymakers and financial regulators at the SEC, the Department of Labor, the Commodity Futures Trading Commission, the Federal Reserve, and the Department of Treasury to ensure investors and companies have all the tools they need to properly manage and disclose ESG risks and opportunities. Capital markets require firm regulatory guardrails to protect investors and safeguard Americans' retirement savings during the transition to a cleaner, more fair, and more equitable economy.

AFR looks forward to working with Congress on these issues and we appreciate the opportunity to submit this letter for the record.

Sincerely,

Alex Martin, PhD
Sr. Policy Analyst for Climate Finance
Americans for Financial Reform

David Arkush
Managing Director, Climate Program
Public Citizen

[2] CFTC, MRAC, Climate-Related Market Risk Subcommittee, "Managing Climate Risk in the U.S. Financial System," 2020. https://www.cftc.gov/PressRoom/PressReleases/8234-20