

Will Biden roll back Trump changes to ESG investing rules?

By: John Streur | November 24, 2020

Washington - "Do you think Biden will roll back the changes Trump made to ESG investing rules and statements from the Department of Labor (DOL) and the Securities and Exchange Commission (SEC)?" This is the very logical question we are getting from our clients and advisors, driven by a number of changes made during the past two years that are unfavorable to certain socially responsible investment approaches.

Beyond simply undoing the rules put in play by the prior administration, the Biden team is in a position to make immediate progress on the vastly more important issue of implementing a framework, or market infrastructure, for standardizing, evaluating and measuring ESG disclosure from issuers and regarding investment strategies. This is especially important because Europe is well ahead of the US in terms of creating standards and rules for their investors and for the issuers of securities listed and/or traded within their areas of regulatory jurisdiction.

ESG standardization in US markets

Investors in US markets need ESG-related financial market infrastructure in three areas: 1) SEC regulations that create usable definitions and disclosure requirements for investment products claiming some form of ESG in their descriptions; 2) SEC standards to provide the best possible framework for issuers of securities to disclose and make transparent to investors their material ESG exposures and their relevant management strategy and metrics; and 3) guidance from the DOL that clarifies that ESG-related products must meet the same financial criteria as other investment products. No less, no more, just the same.

SASB, CFA Institute, ICI weigh in

Work to build this framework in the US began well over a decade ago and is now being carried on by members of civil society outside the government. Today, there are well-developed, peer-reviewed proposals and comment letters sufficient to move forward on these three issues. The Sustainability Accounting Standards Board (SASB) has fully developed, released and promoted globally its "Standards for Issuer Disclosure." The CFA Institute recently completed a project to build ESG product disclosure, and the Investment Company Institute (ICI) just released its ESG position paper that includes industry-reviewed language and definitions.

Major organizations not engaged in the ESG debate four years ago have also recently released position pieces on these issues — another marker of the momentum behind the field of ESG investment. Expect the Biden administration to build this infrastructure, which will put the US on a more even footing globally and increase competition for the "ESG dollar" in the asset management industry. Ultimately, these steps will benefit our industry and serve the greater global good through the long-term, positive changes that follow from the proper management of environmental and social business exposures and outcomes.

Bottom line: Far more important than simply undoing the new Trump ESG rules is establishing infrastructure to standardize, evaluate and measure ESG disclosure from issuers and regarding investment strategies. We expect the Biden administration to move this initiative forward.

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Picture of

President and CEO

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Management

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