

Investor Advisory Committee Urges SEC to Take Point on ESG Disclosure

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The SEC's Investor Advisory Committee (the Committee) sounded the bugle for SEC action on environmental, social, and governance (ESG) disclosures in its May 14, 2020, [formal recommendation](#). Following four years of meetings with investment advisors, asset managers and owners, and U.S. and foreign issuers, the Committee found that "investors consider certain ESG information material to their investment and voting decisions, regardless of whether their investment mandates include an 'ESG-specific' strategy." However, the Committee concluded that, despite widespread and growing demand for ESG data,^[1] there is a "lack of material, comparable, consistent information available upon which to base some of these decisions." The Committee further noted that international pressure to create ESG frameworks has led to the creation of ad-hoc ESG disclosure structures, each with their own standards and criteria – creating heavy burdens for U.S. companies who would like to provide their ESG information to consumers and investors. As a result, the Committee urged the SEC to "update the reporting requirements of Issuers to include material, decision-useful, ESG factors" and to "undertake a series of outreach efforts to investors, Issuers and other market participants" to create an effective and efficient ESG disclosure system. The Committee, however, recognized that a new reporting regime is complicated and will certainly come with litigation risk.

It is unclear what the SEC's response to the Committee's recommendation will be. In his [remarks](#) to the Committee on May 27, 2020, Chairman Jay Clayton commented that "while I believe in many cases one or more 'E' issues, 'S' issues, or 'G' issues are material to an investment decision, I have not seen circumstances where combining an analysis of E, S, and G together, across a broad range of companies...would facilitate meaningful investment analysis that was not significantly over-inclusive and imprecise."

We will continue to monitor any SEC action on ESG disclosure and provide any information about potential roundtables, comment periods, or other opportunities for public input.

^[1] The U.S. SIF Foundation identified over "\$11.6 trillion in U.S.-domiciled sustainable, responsible, and impact investment strategy assets" at the end of 2018 compared to \$639 billion in 1995.

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Authors

[Michael J. Blankenship](#)

[J. Eric Johnson](#)

[John P. Niedzwiecki](#)

[Ben D. Smolij](#)

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[Michael J. Blankenship](#)



J. Eric Johnson



John P. Niedzwiecki



Ben D. Smolij

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