ESG – WHAT IS IT AND HOW DOES IT PERTAIN TO ME?

By: D. James Lutter

Co-author: Todd A. Terrazas

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ESG – Environmental, Social, and Governance: These are the three central pillars utilized by investors on measuring the social and sustainability (non-financial) factors of entities in which they invest. Investors who focus on ESG incorporate these social and sustainability factors, along with financial factors, to assess risk and performance. Until recently, ESG has been implemented mainly by investors, but recently has moved more into the main stream with attention both at the state and federal level.

On September 20, 2019, the U.S. House Financial Services Committee passed H.R. 4329, the ESG Disclosure Simplification Act of 2019. The bill addresses environmental, social and governance (ESG) disclosures and would require issuers to describe the link between ESG metrics and long term strategy, in which ESG metrics would be included in disclosures. The bill does not seem to have momentum to become law under the current administration, but is being addressed at the state level. While the Federal government is remaining on the sidelines, states are embracing and passing ESG laws.

Rather than a single Federal approach like in Europe and Japan, the U.S. approach is being determined at the state and local level. The approach is expanding beyond Congress' bill which pertains to issuers to include all institutions in which pensions or political subdivisions are investing. The individual approach leads to each state and locality having individual requirements, creating an endless set of rules and regulations. This approach is going to be more expensive and less efficient to manage, but that is the direction at this point.

California, amongst other states, has embraced ESG into regulations into the investing of pension funds. Other states include Connecticut, Illinois, New Jersey, New York, Oregon and Washington; not to mention localities such as Boston, Chicago, New York City and Seattle.

Illinois is among the leaders to sign into law the Sustainable Investing Act, also known as HB 2460, which became effective in January 2020. The biggest difference from the others is that the new law requires all public or government agencies involved in managing public funds to

"develop, publish, and implement sustainable investment policies applicable to the management of all public funds under its control."

This is the point at which to question, how does it pertain to my financial institution? Governmental entities are now required to implement sustainable investment policies in which anyone participating in the investment of public funds (which includes financial institutions) will need to address. Financial institutions, in addition to issuers, will need to consider ESG criteria and be able to defend when soliciting funds that fall under the ESG requirements.

SOURCES

INSIGHT: States Take Lead on ESG Investment Regulations While Feds Stand Still
Bloomberg law, Ali Zaidi

Pending Federal ESG Legislation Could Yield Significant and Step-wise Change
Bloomberg law, Ali Zaidi

Environmental, Social, and Governance (ESG) Criteria
By JAMES CHEN
Reviewed By GORDON SCOTT
Updated Feb 25, 2020

ESG Disclosure Simplification Act of 2019
Congress.gov

About D. James Lutter

D. James (Jim) Lutter is the Senior Vice President of Trading and Operations at PMA Financial Network and PMA Securities, where he oversees PMA Funding., a service of both companies that provides over 1,000 financial institutions with a broad array of cost effective funding alternatives. Mr. Lutter is a Registered Representative with PMA Securities and Investment Advisor Representative with Prudent Man Advisors, Inc. Mr. Lutter has the following FINRA licenses with PMA Securities: Series 7, 24, 50, 53, 63, 65 and 99.

About Todd A. Terrazas

Todd joined PMA Financial Network in 2014 as a Financial Analyst for the firm's Credit Risk Management team. He now serves as Business Development & Product Manager for PMA Funding, where he is responsible for developing financial institution partner relationships and managing funding product solutions and association affiliations. Mr. Terrazas also engages in strategic planning and identifying market trends through extensive market research. Prior to joining the firm, he was a Market Research Analyst at Common Goal Systems, Inc. Mr. Terrazas earned his Bachelor of Arts in Finance from Calvin College.

Additional information is available upon request. For more information visit www.pmanetwork.com and www.pmafunding.com.