July 18, 2019

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

File Number S7-26-18: SEC Staff Roundtable on Short-Term / Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements

Dear Ms. Countryman,

The Principles for Responsible Investment (PRI) welcomes the opportunity to submit comments in advance of the SEC Staff Roundtable on Short-Term / Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements.

The PRI is the world's leading initiative on responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Launched in New York in 2006, the PRI has grown to over 2,350 signatories, managing over $86 trillion AUM and is still growing.[1] The U.S. is the PRI's largest market, with 458 signatories investing over $42 trillion AUM.[2]

We commend the SEC for taking up this important topic. Short-termism in today's markets leads to a series of negative externalities including market volatility and inefficiencies in capital allocation. For example, an excessive short-term focus by U.S. investors contributes to a failure to incorporate into capital allocation decisions key ESG factors that are likely to have a profound impact on long-term performance. We urge the Commission to promote long-term investing by ensuring investors have access to the information and tools necessary to incorporate material ESG factors into investment decisions.

SUMMARY OF THE PRI'S POSITION

Companies that focus on long-term performance consistently outperform their peers on nearly every financial measure including revenue, earnings and job creation.[3] Similarly, strong performance on ESG factors correlates positively with a lower cost of capital and improved financial performance.[4]

[1] As of 01 May 2019
[2] As of 01 July 2019
[3] McKinsey Global Institute, *Measuring the Economic Impact of Short-Termism*, 2017. https://www.mckinsey.com/~/media/mckinsey/featured%20insights/Long%20term%20Capitalism/Where%20companies%20with%20a%20long%20term%20view%20outperform%20their%20peers/MGI-Measuring-the-economic-impact-of-short-termism.ashx
[4] Deutsche Asset Management and the University of Hamburg, *ESG and Corporate Financial Performance: mapping the global landscape*, 2015. https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf

Research shows, however, that companies will forego efforts to create long-term value because of pressure to meet short-term objectives.[5]

The perceived investor emphasis on short-term financial performance creates pressure on companies to focus on short-term financial performance and pay less attention to fundamentals.[6] It can result in foregoing opportunities with a positive long-term net present value, including those that provide wider sustainability-related benefits. It can also affect how ESG factors are considered in strategy, capital expenditures and daily operations.[7] Consequently, companies may miss opportunities to: drive sustainability-related innovation; develop their human capital; expand to new markets; grow their customer base; create operational efficiencies; and effectively manage social and environmental business risks.

In response to these concerns, the PRI published the whitepaper, "Coping, Shifting, Changing 2.0: Corporate and investor strategies for managing market short-termism",[8] which provides a set of recommendations for companies and investors to mitigate some of the most serious consequences of short-termism through changes in strategy and practice.

The recommendations for companies include, but are not limited to, the following:

- Companies should communicate any short-term benefits of their sustainability-related strategies and clearly articulate how this positively affects their net present value;
- Companies should demonstrate how their business strategy, including their approach to sustainability, will create long-term value for their investors;
- Senior management remuneration should depend on the long-term performance of the business across a range of metrics that include relevant ESG indicators; and
- Companies should consider ending the practice of issuing quarterly earnings guidance, and instead focus on communicating issues and metrics that are relevant to the long-term success of the business.

The recommendations for investors include, but are not limited to, the following:

- Investors should publish an explanation of how drivers of long-term performance, including ESG factors, are taken into account in their investment processes;
- Investors should ensure that their investment strategy and commitments to responsible investment are covered and effectively implemented in their investment policies; and
- Investors should encourage companies to align remuneration with long-term value creation, end quarterly earnings guidance and publish a board-level commitment to long-term decision-making.

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[5] Examples include: Graham, J., Harvey, C. and Rajgopal, S., *The Economic Implications of Corporate Financial Reporting, Journal of Accounting and Economics*, Vol. 40, Issue 1, 2015. Graham, J., Harvey, C. and Rajgopal, S., *Value Destruction and Financial Reporting Decisions, Financial Analysts Journal*, Vol. 62, 2006. FCLT Global, *Rising to the challenge of short-termism*, 2016. https://www.fcltglobal.org/docs/default-source/default-document-library/fclt-global-rising-to-the-challenge.pdf

[6] Principles for Responsible Investment, *Sustainable financial system: nine priority conditions to address*, 2016. https://www.unpri.org/download?ac=5510

[7] Aviva Investors, *A Roadmap for Sustainable Capital Markets*, 2014. https://www.unepfi.org/psi/wp-content/uploads/2014/07/roadmap_for_sustainable_capital_markets.pdf

[8] Principles for Responsible Investment, United Nations Global Compact. *Coping, Shifting, Changing 2.0: Corporate and investor strategies for managing market short-termism.* 2017. https://www.unglobalcompact.org/library/5421

The PRI encourages the SEC to adopt policies to facilitate companies' and investors' fulfillment of these recommendations. The SEC should implement mandatory ESG disclosure requirements for companies that include the data referenced above. Investors are increasingly engaging with companies directly to encourage them to implement policies to tie executive compensation to corporate performance on ESG metrics. The Commission should maintain current rules related to shareholder proposals to facilitate these engagements.

INITIATE RULEMAKING FOR PUBLIC COMPANIES TO DISCLOSE DATA ON MATERIAL ESG FACTORS

Many PRI signatories are large institutional investors and can be considered "universal owners": their highly-diversified, long-term portfolios are sufficiently representative of global capital markets that they effectively hold a slice of the overall market, making their investment returns dependent on the continuing good health of the overall economy. Universal owners have diversified investments focused on long-term returns, and therefore have more exposure to "cumulative portfolio-wide externalities".[9] In the 2008 financial crisis, failure to address these externalities cost "pension funds in developed countries... US$ 5.4 trillion".[10]

Increasingly, research suggests that ongoing failure to adequately address climate change will lead to a systemic crisis that is likely to have a profound impact on asset prices and investment performance.[11] The SEC's mandate to protect investors and promote capital formation requires it to ensure investors have access to material ESG information and the tools necessary to encourage the companies they own to act responsibly.

The PRI recommends the Commission initiate rulemaking for public companies to disclose data on all material ESG factors in Regulation S-K.

The PRI, along with institutional investors with more than $5 trillion in assets under management, submitted a petition to the SEC last year urging the Commission to undertake a rulemaking pursuant to Rule 192(a) of the SEC's Rule of Practice to develop a comprehensive framework requiring issuers to disclose identified ESG aspects of each public reporting company's operations.[12]

The petition:

- Calls for the Commission to initiate notice and comment rulemaking to develop a comprehensive framework requiring issuers to disclose identified ESG aspects of each public-reporting company's operations;
- Lays out the statutory authority for the SEC to require ESG disclosure;
- Discusses the clear materiality of ESG issues;
- Highlights large asset managers' existing calls for standardized ESG disclosure;

[9] Trucost, UNEP FI and PRI. *Universal Ownership: Why environmental externalities matter to institutional investors*, Page 9, 2011. https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf
[10] Trucost, UNEP FI and PRI. *Universal Ownership: Why environmental externalities matter to institutional investors*, Page 9, 2011. https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf
[11] Glenn D. Rudebusch, *Climate Change and the Federal Reserve*, Federal Reserve Bank of San Francisco Economic Research. https://www.frbsf.org/economic-research/publications/economic-letter/2019/march/climate-change-and-federal-reserve/
[12] United States Securities and Exchange Commission, Comments on Request for rulemaking on environmental, social, and governance (ESG) disclosure, [File No. 4-730], October 2018. https://www.sec.gov/comments/4-730/4-730.htm

- Discusses the importance of such standardized ESG disclosure for companies and the competitive position of the U.S. capital markets; and
- Points to the existing rulemaking petitions, investor proposals, and stakeholder engagements on human capital management, climate, tax, human rights, gender pay ratios, and political spending, and highlights how these efforts suggest, in aggregate, that it is time for the SEC to bring coherence to this area.

Investor demand for this disclosure is clear. In addition to this petition, thousands of investors submitted comments to the Commission in response to the "Disclosure Effectiveness Review" process in 2013. In that process, investors expressed overwhelming support for expanded disclosure of ESG factors, with requests for additional tax and environmental disclosures receiving the strongest support.[13]

There is significant data to support the long-term economic value of ESG integration for investors and corporations.[14] A meta-study by Deutsche Asset & Wealth Management and the University of Hamburg, found "62.6% of studies revealed a positive correlation between ESG investing and financial performance", nearly 30% had neutral performance and 8% under performed.[15] A CFA Institute survey on ESG integration found ESG momentum strategy outperformed the MSCI World Index by 16.8%, and the MSCI US Index by 18.8%.[16] For equity stocks, those receiving ESG scores in the top third of the rankings outperformed the bottom third by 18 percentage points.[17] As evidence that ESG integration contributes to investment performance grows, investors are increasingly demanding access to ESG data.

Voluntary disclosure frameworks have not worked in the U.S. market to fill this void. We appreciate that the SEC issued Guidance in 2010 to clarify public companies' obligations to disclose climate-related risks. Unfortunately, that Guidance has not resulted in a meaningful improvement in the information available to investors.

Companies are attempting to provide this information voluntarily. "93% of the 250 largest companies (by revenue) worldwide publish ESG information and three out of four of them use the GRI

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[13] Securities and Exchange Commission, Comments on Disclosure Effectiveness, 2016. https://www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness.shtml

[14] In May 2018, the GAO published a report that detailed its own meta-analysis of peer-reviewed academic journals between 2012 and 2017 on ESG investing. It found the vast majority (88 percent) of scenarios reported finding a neutral or positive relationship between the use of ESG information in investment management and financial returns. The GAO report also cited a 2015 meta-analysis, which reported aggregate evidence from more than 2,000 empirical studies, which similarly found that 90 percent of the studies reported finding a neutral or positive relationship between incorporating ESG factors and financial performance. https://www.gao.gov/assets/700/691930.pdf

[15] Deutsche Asset & Wealth Management, the University of Hamburg, and Principles for Responsible Investment, ESG & Corporate Financial Performance: Mapping the global landscape, December 2015. https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf

[16] MSCI ESG Research and Principles for Responsible Investment, The PRI's ESG and Alpha Study based on MSCI ESG Research Analytics and Data, February 2018, in the briefing paper: "Financial Performance of ESG Integration in US Investing." This briefing paper is based on three empirical studies that provide important insights on ESG materiality in the US. A May 2017 CFA Institute survey on ESG integration, the backdrop for this paper, reinforced that a proven link between ESG factors and financial performance would be among the top motivating reasons for those US investors that have not done so yet to adopt ESG integration in their investment practice. Performance data period from January 2008 to middle of 2017. https://www.unpri.org/investor-tools/financial-performance-of-esg-integration-in-us-investing/2738.article.
"Momentum investing involves a strategy to capitalize on the continuance of an existing market trend." https://www.investopedia.com/terms/m/momentum_investing.asp

[17] BofA Merrill Lynch Global Research, BofA Merrill Lynch Global Research's ESG in Equities Investing Study, June 2017, in the briefing paper: "Financial Performance of ESG Integration in US Investing." Performance data period 2005 to 2015. https://www.unpri.org/investor-tools/financial-performance-of-esg-integration-in-us-investing/2738.article

Standards".[18] Since companies are not required to report ESG information using standardized metrics, the data currently available lacks consistency and comparability, making it difficult for investors to effectively integrate ESG considerations into their investment processes.

It is also expensive for companies that choose to devote the resources to the production and regular updating of multiple ESG reports under different voluntary disclosure frameworks. SEC rules requiring company disclosure of consistent, comparable data would fill a void that investors and the private markets are struggling to fill effectively and save responsible public companies money.

Despite investor demand, the Commission has shown no evidence that it intends to take action to advance mandatory ESG disclosure. We hope that this Roundtable will be the first step in that process.

Shareholder proposal process

The shareholder proposal process provides investors with a critical opportunity to engage with companies on issues that are material to the long-term performance of their investments. One study found "a portfolio of firms that were engaged by shareholders outperformed a matched portfolio of companies that were not engaged by 4.7 percent".[19]

Proxy voting mechanisms, including the shareholder proposal process and the ability of investors to engage effectively and efficiently in proxy voting, are critical to the functioning of the investment intermediation chain. It is a core characteristic of the rights of investors, and the savers on whose behalf they invest, to enable investors to engage the companies they own on issues such as shareholder rights, corporate disclosure and other ESG issues, such as climate change. Significant increases in ownership or resubmission thresholds would make it difficult, and in some cases prevent investors, on behalf of savers, from raising these issues with companies and holding companies to account. It is the PRI's view that the SEC, therefore, should not increase ownership requirements or resubmission thresholds.

As one considers the arguments put forward in opposition to the existing shareholder proposal process, especially as they relate to short-termism, it is important to distinguish between the activities of those engaging with companies to promote responsible ESG practices and those that are promoting financial engineering and short-term value extraction. It is true that some shareholder activists promote governance changes at companies to pressure them to engage in short-term value extraction. These investors, however, have access to extensive resources and engage in proxy fights at their own expense. Changes to the shareholder proposal process laid out in Rule 14a-8 would not impact short-term, activist investors. Rule 14a-8 is an important tool for smaller, less resourced investors who are exercising their rights as shareholders to raise critical issues with the company through the proxy process.

Efforts to impose regulations on proxy advisory firms that would effectively prevent them from doing business without excessive intervention from issuers are also worrisome. Investors rely on advice from proxy advisory firms to help make informed decisions on tens of thousands of shareholder votes each year. To be clear, it is very rare for proxy advisory firms to make independent decisions about

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[18] Testimony of Tim Mohin, Chief Executive, Global Reporting Initiative (GRI) before the U.S. House Committee on Financial Services Subcommittee on Investor Protection, Entrepreneurship and Capital Markets hearing July 10, 2019. https://financialservices.house.gov/uploadedfiles/hhrg-116-ba16-wstate-mohint-20190710.pdf
[19] Julie Gorte, PhD, Pax World, *Linking Investor Engagement with Shareholder Value*, 2019. https://paxworld.com/linking-investor-engagement-with-financial-value/

how to cast a vote. For example, 87 percent of the shares voted by ISS rely on guidelines provided by investor clients.[20]

Companies' ability to access low cost capital through open capital markets depends, to some extent, on investors' ability to rely on mechanisms that enable them to fulfill their voting obligations on everything from re-electing board members, to accepting audit reports, to more nuanced issues such as casting votes on shareholder proposals. Without proxy advisory firms, most shareholders would lack the capacity required to synthesize information to vote proxies, and therefore, would have difficulty performing their fiduciary duty to their clients.

A variety of options have been put forward to regulate proxy advisory firms, which would have varying impacts on the markets. Proposals, however, that would require proxy advisors to provide companies an opportunity to review and comment on research reports before sharing their analysis with investors would undermine the independence of the firms and investors' ability to rely on their research.

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At today's Roundtable, the Commission is likely to hear from industry participants urging deregulation to promote long-termism. This is the wrong response.

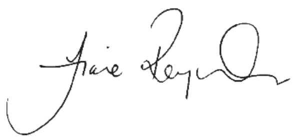
Long-term investing means incorporating all material financial factors to encourage long-term thinking and investment at public companies. This requires the integration of ESG factors. Without explicit, standardized requirements for corporate disclosure of material ESG factors from the SEC, it is difficult for investors to compare financial performance and mitigate long-term risk. It is also important that the SEC maintain current rules and legal interpretations related to shareholder proposals and proxy advisors. These measures, together, will provide investors with the information they need and the tools to act effectively to encourage long-termism in America's public companies.

Thank you for the opportunity to comment and share our views on the SEC Staff Roundtable on Short-Term / Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements.

For further conversation and follow up, please contact our Washington, DC based team:

- Heather Slavkin Corzo, Head of U.S. Policy: heather.slavkin.corzo@unpri.org
- Colleen Orr, U.S. Policy Analyst: colleen.orr@unpri.org

Yours sincerely,



Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

[20] ISS letter to Senate Banking Committee Members, May 30, 2018. https://www.issgovernance.com/file/duediligence/20180530-iss-letter-to-senate-banking-committee-members.pdf

cc. The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson, Jr.
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
The Honorable Allison H. Lee