Feds Pushing Liberal Investment Schemes in Local Government, Business Sectors

Published: Tuesday, 31 May 2022 08:43

By Rick Brundrett - The Nerve

Hits: 559

The Biden administration and Democratic-controlled U.S. House collectively have been focusing on local municipalities, publicly traded companies and private retirement plans to promote the environmental, social and governance movement that is popular among liberal groups, records show.

Republican state and federal officials in South Carolina are opposing those efforts, contending, among other things, that mandating ESG factors will hurt taxpayers, businesses and individuals financially.

Critics say ESG scores are being used by banks, investment and accounting firms, and credit rating agencies to grade companies on how well they have adopted certain liberal values or policies, such as reducing the effects of climate change, increasing diversity on their governing boards, and supporting social justice causes.

The Nerve in recent months has been investigating the ESG movement in South Carolina.

At the federal level, an obscure regulatory organization created by Congress in 1975, known as the Municipal Securities Rulemaking Board (MSRB), earlier this year received public comments on ESG practices in the municipal securities market.

In a March 8 letter to the MSRB, a group of state officials from across the U.S., including S.C. attorney general Alan Wilson and treasurer Curtis Loftis, criticized the board's actions.

"The seemingly innocuous RFI (Request for Information) questions are actually precursors to MSRB rules that would require municipalities to make ESG-related disclosures," the officials said. "These communities require funding, and that means access to capital markets."

"Recognizing the special role of America's state and local governments, Congress enacted a unique regulatory regime for them, requiring that they abide by anti-fraud provisions but exempting them from onerous disclosure requirements that would otherwise drive up the costs of funding and threaten their ability to govern themselves," they added. "Congress maintained this balance when it created the MSRB, strictly forbidding it to demand disclosures from municipal issuers or to specify the content of disclosures."

The state officials, which included neighboring Georgia's attorney general and treasurer, noted that the MSRB "candidly admits" its intent to "create access to information demanded by ESG 'impact investors'" in the municipal bond market, though securities laws already exist to ensure investors have "material information, not whatever data they make seek in pursuit of social schemes.”

As of last June 30, outstanding general obligation and revenue bond debt among school districts, municipalities, counties and special purpose districts in South Carolina totaled $14.9 billion, according to an annual [report] by the S.C. Treasurer’s Office.

Contacted this week by The Nerve, Eric Shytle, general counsel with the Municipal Association of South Carolina, said the association currently has “no position on ESG ratings or disclosures.”

“My understanding is that the current focus of the MSRB is to be sure that, if municipal bonds are marketed as meeting one or more ESG goals, the proceeds of the bonds are used in a manner that is consistent with the marketing,” Shytle said in an email response, adding that to his knowledge, no S.C. municipality has experienced “adverse ratings actions or market conditions as a result of ESG considerations.”

In an email response this week to The Nerve, MSRB spokeswoman Tina Marchetti said the board plans to publish a summary of the “diverse” public comments received on the ESG issue, plus host a series of virtual town halls to “further explore the various themes raised by commenters.”

‘Weaponizing’ rulemaking authority

In other federal ESG action, the U.S. House passed a bill last year, titled the “Corporate Governance Improvement and Investor Protection Act,” which would, among other things, require that publicly traded companies disclose certain information related to, according to a bill summary:

*ESG “performance metrics”;

*Climate “change-related risks,” including “direct and indirect greenhouse gas emissions” and “fossil fuel-related assets”;

*Expenditures of “certain political activities”; and

*The demographic makeup of the company’s board of directors and executive officers.

The bill also would create an advisory committee that would recommend to the Securities and Exchange Commission policies to “facilitate the flow of capital toward environmentally sustainable investments,” according to the bill summary.

The U.S. House Committee on Financial Services passed the bill over the objections of Rep. William Timmons of Greenville, who sits on the committee. The bill passed the full House last June by just one vote, mostly along party lines.

Asked about his views on ESG, Timmons in a recent prepared statement to The Nerve said, “ESG metrics in credit analysis and investment decisions are simply a political tool that have no impact on financial performance or risk."

"When Republicans take back the House in November," Timmons continued, "mandating ESG disclosures will have no place on our legislative or regulatory agenda. ESG is just another example of the Left weaponizing and abusing their rulemaking authority to name and shame those who do not fall in line with their woke climate agenda."

The Nerve earlier this month [revealed] concerns by small S.C. business owners over ESG mandates.

The House bill, introduced in February 2021 by California Democratic Rep. Juan Vargas, is now in the U.S. Senate Committee on Banking, Housing and Urban Affairs, though no official actions have been taken, records show. A committee spokesman told The Nerve if the bill doesn't pass this year, it would have to be reintroduced next year.

Sen. Tim Scott, who sits on the banking committee, has been a vocal ESG critic, telling Federal Reserve Board chairman Jerome Powell in a March hearing: "I know that there's a lot of attention being paid these days to ESG. I think that is a bad direction for the Fed. The Fed should focus its attention on its primary responsibilities and frankly, not even get involved in congressional matters."

In addition, Scott, who also is the ranking member of the Senate Special Committee on Aging, and three other Republican senators in a Dec. 10 letter urged the U.S. Department of Labor (DOL) to withdraw a proposed rule change that would allow managers of private retirement plans to promote ESG factors in those plans.

"DOL claims that the proposal will simply 'remove barriers to plan fiduciaries' ability to consider climate change and other environmental, social and governance factors when they select investments and exercise shareholder rights,'" the senators said. "However, in reality, the proposal effectively mandates consideration of climate change and ESG factors in all investment and proxy voting decisions."

The proposal also would vastly expand the "circumstances in which retirement plan fiduciaries can pursue 'woke' ESG causes even when they provide no financial benefits to plan participants and beneficiaries," the senators continued. "As a result, it will significantly harm Americans' retirement savings by allowing plan fiduciaries to promote non-pecuniary policy objectives like lowering global carbon emissions and promoting 'social justice' rather than being solely focused on maximizing investment returns."

In a related action, S.C. attorney general Wilson and treasurer Loftis joined other state leaders in a Dec. 13 letter to DOL protesting the proposed rule, titled, "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights."

“The Proposed Rule promotes a social activist agenda over the interests of employees, retirees, and other retirement fund beneficiaries,” the officials said in the letter.

As it stands for now, the issue is still in the “proposed rule stage,” federal records show.

The DOL in a news release said the proposal followed an executive order signed by president Joe Biden last May directing the federal government to implement policies to “help safeguard the financial security of America’s families, businesses and workers from climate-related financial risk that may threaten the life savings and pensions of U.S. workers and families.”

The Nerve last week revealed that two major investment management firms that handle a large part of South Carolina’s pension plan for state retirees are big supporters of the ESG movement in the U.S.

Brundrett is the news editor of The Nerve (www.thenerve.org). Contact him at 803-394–8273 or rick@thenerve.org***. Follow him on Twitter @RickBrundrett. Follow The Nerve on Facebook and Twitter @thenervesc.***

***Nerve* stories are free to reprint and repost with permission by and credit to *The Nerve*.**