Opening Statement
Ranking Member Sherrod Brown
Senate Banking Committee Hearing on
"The Application of Environmental, Social, and Governance Principles in Investing and the Role of Asset Managers, Proxy Advisors, and Other Intermediaries"
April 2, 2019

Thank you Chairman Crapo and welcome to our witnesses.

I hope today's hearing will allow the Committee to better understand the growth of environmental, social, and governance, or E-S-G, investing principles.

Corporations have become beholden to quarterly earnings reports. One survey of financial executives from public companies found that 78 percent would sacrifice economic value of their own company just to meet financial reporting targets.

That's no way to grow our economy.

Families don't think in terms of three-month earnings quarters – they think in terms of school years, and 30-year mortgages, and years left to save for retirement. And the more corporations think about the long-term sustainability of their businesses, the better off workers, shareholders, managers, and customers will be.

Corporations spent more than $800 billion on stock buybacks last year.[1]

That money doesn't end up in the pockets of the company's workers – it goes right in the pockets of the CEOs and other corporate managers making the decision.

Last year, for the first time in a decade, corporations spent more on their own stock than on investing in long-term capital expenditures and worker investments.[2]

We know when companies ignore long-term risks, workers, small-time investors, and consumers all pay the price.

Look at Wells Fargo – the company exploited its workers with unsustainable expectations to boost its stock value, while the board lavished the CEOs with pay raise after pay raise. And consumers are still paying the price.

But it's not just consumers – it's bad for the company. Wells Fargo has faced scandal after scandal, fines and enforcement actions, and the worst stock performance among the biggest banks. And just last week, for the second time in two and a half years, the CEO stepped down under the cloud of the scandals.

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[1] https://www.axios.com/stock-buybacks-increased-2018-apple-3ff90545-53f7-41e2-b774-d78ae24ec9af.html

[2] https://www.axios.com/stock-buybacks-2018-2019-record-high-54f64348-bcd8-48c4-ae15-da2ef959dcb3.html

Study after study tell us that investors who pay attention to how companies affect workers and communities and the environment do better over time.

But it’s not always easy to figure out which companies are thinking long-term, and which companies are only thinking about the next round of stock buybacks. We need to make that critical information available to the public.

Most of the SEC’s disclosure requirements were adopted almost 40 years ago, when more than 80 percent of S&P 500 companies’ assets were fixed, like buildings and factories. Today, the numbers are flipped – more than 80 percent of S&P 500 assets are intangible—we’re talking about brand names, patents, and investments to enhance worker skills and effectiveness.

To address that evolution, the SEC Investor Advisory Committee last Thursday recommended to the Commission that companies include new human capital management disclosures in their public filings.

Adding human capital disclosure is just a start. Investors know there are many environmental, social, or political risks that could reduce long-term value, but companies are not providing that information.

So the SEC should act. Enhancing and standardizing these disclosure requirements will merely bring the SEC up-to-date with other rules around the world.

But disclosure is only one step. It's time that companies realize that holding executives and directors accountable, respecting workers, and planning for long-term risks instead of short term payouts for CEOs is good for business.

Instead, corporations have spent their time lobbying against important tools that allow shareholders to hold corporate boards and management accountable.

Corporate special interests want to limit investors' freedom to manage and run their funds.

And they want to silence the voices of Main Street investors by making it harder for shareholders to petition companies to allow *all* the shareholders to vote on issues significant to the company.

Never mind that corporations never want government to step in to protect servicemembers from banks that repossess their cars, or protect families from getting trapped in a downward spiral of debt with a payday lender.

But now all of a sudden, these rich CEOs want government to step in to protect them from ordinary investors and ordinary Americans who are trying to make their voices heard on climate change, on protecting Americans from gun violence, on treating workers with respect. So much for limited government.

It shouldn’t take a crisis to focus executives and directors on the essentials of long-term planning. But too often short-term thinking takes over, and workers, shareholders, and customers suffer.

Just ask Wells Fargo.

I look forward to hearing from the witnesses.

Thank you, Chairman Crapo.