



FedFin Client Report

Tuesday, June 27, 2023

Passive Asset Managers Top ESG Financial Hit List

Client Report: ESG4

Executive Summary

Late Friday, GOP HFSC Members issued a withering [report](#) criticizing the Biden Administration for using financial regulators to do its political bidding on ESG objectives that it believes “contort” financial regulators into political instrumentalities that put retail investors at risk. The group’s most immediate target is environmental policy, but it plans also to focus on corporate decision-making to ensure that it too does not put policy goals above pecuniary return. The SEC is unsurprisingly the GOP’s top target, with HFSC likely readying action on an array of proxy-voting changes and proposed bills to block the Commission’s proposed climate-risk [disclosures](#). None of these bills will be enacted, but there may well be at least enough Democratic support for a Congressional Review Act repeal once these disclosure rules are finally issued; the partisan line-up on these ESG initiatives will make that clearer. With specific regard to financial services, the report targets the three largest asset managers, challenging the extent to which their proxy voting is in investors’ best interest and pressing for Fed action to determine if voting when it comes to banking entities constitutes “control” and thus requires these firms to become BHCs.

Analysis

Key priorities of financial-industry concern include:

- **Asset Managers:** The GOP’s overall top priority is to ensure that proxy voting by asset managers reflects investor financial interests, with the plan including mandatory disclosure of the economic analysis asset managers deploy for proxy voting and specific reforms targeted at the three largest asset managers. Picking up from a proposal [advanced](#) last year by Senate Banking Republicans, the memo argues that these firms are not the passive investors they must be when it comes to voting on BHC resolutions to avoid designation as a controlling party. The Senate proposal included a suggestion that these asset managers be declared BHCs due to be controlling interests, but the GOP report generally focuses instead on broader reforms to the securities laws to define control, apparently unaware that the issue of concern – i.e., passive bank ownership – is more directly under the FRB’s authority. However, Rep. Huizenga (R-MI), the leader of this ESG effort, asked Chair Powell about this last week ([see Client Report FEDERALRESERVE74](#)), suggesting the

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Board should take action; Mr. Powell seemed perplexed by the request and only promised to get back to him.

- **Regulatory Activity:** This is said to “contort” into an environmental-policy force despite Mr. Powell’s protest and that from other agencies that they look only at climate-related financial risk. Although emphasized in the memo as a top priority, the report provides no detail about specific legislative objectives in this area.