

# NAVIGATING ESG'S POLITICAL DIVIDE

A SUMMARY OF MILLANI'S DISCUSSION WITH ROBERT ECCLES AND DAN CROWLEY

June 2023

The USA is Canada's most important trading partner. As such, the pushback from certain states around ESG could have significant implications for Canadian investors and corporations. On May 16th, 2023, Millani President & Founder, Milla Craig, moderated a webinar with Robert (Bob) Eccles and Dan Crowley. The discussion aimed to provide insights on what this pushback could mean for Canadian investors and corporations.



## Robert Eccles

Mr. Eccles is an integrated ESG reporting expert and professor at the University of Oxford. Before Oxford, Mr. Eccles was a Harvard Business School professor and the founding Chairman of the Sustainability Accounting Standards Board (SASB).



## Dan Crowley

Mr. Crowley is a partner at K&L Gates LLP in Washington, DC, leading the firm's global financial services policy team.

## Do ESG efforts create value?

In the USA, ESG has become polarizing and is being presented as an either-or debate: either companies focus on maximizing shareholder value or on solving ESG issues, but not both. Although many studies indicate that ESG efforts create long-term value for shareholders, each side can find data points that confirm pre-existing biases. Often, the disconnect is further fueled by media publishing inflammatory stories catering to extreme political narratives. During the discussion, both Bob and Dan disagreed with the combative narrative around ESG. They highlighted that both sides should take a collaborative approach focused understanding the possible impacts of ESG integration, where ESG is defined as a specific subset of sustainability that matters to investors.

## Where does the public sector stand?

The ESG divide is not limited to corporations, as all three levels of government (federal, state, and municipal) are having similar debates. It was discussed that the political rift seemed to have begun when former Presidents Obama and Trump started disagreeing about the language of the [SEC Investment Advice Rule](#) and the [Department of Labor ESG Rule](#). This led to the start of a division between red and blue states on the matter, as they began to make decisions that reflected their respective political narrative. Most noted was the State of Florida Treasury Department threat to retract funds from asset managers because of their stances on issues such as climate change. As Bob and Dan noted, investment firms have pushed back in response, stating that those with a fiduciary responsibility to shareholders should refrain from responding to political pressure.

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## What are other jurisdictions doing?

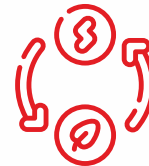
This debate around ESG is considered to be relatively unique to the USA. It was noted that disclosures are meant to give investors what they need to know rather than what they want to know. That said, the materiality rule remains central to all investors. Other markets continue to seek more granular risk data and continue to advance with the development of disclosure frameworks on environmental and social issues, such as the much-anticipated International Sustainability Standards Boards (ISSB) standards for reporting. For instance, rather than challenging the merits of ESG, the EU (European Union) is seeking to address specific concerns like greenwashing and greenhushing, carbon taxes and cross-border adjustment mechanisms.



Eliminating  
**greenwashing &  
greenhushing**



Implementing a  
**carbon tax**



Creating a  
**cross-border adjustment  
mechanism**

## Double Materiality

Although much of the discussion in the USA is related to the definition of single materiality, where the focus is on the impacts of ESG issues on the business, Dan and Bob discussed their thoughts on the evolution to double materiality and how it may make its way into the North American market sooner than later given the uptake in other jurisdictions. That said, the USA still has work to do on garnering support for ESG integration more broadly so it may take longer to see this shift.

## Final thoughts

Despite being on different ends of the political spectrum, both speakers agreed that Canadian investors should ignore the noise, focus on the fundamentals of investing and ensure a maintained focus on fiduciary duty. For issuers, the speakers agreed that corporations must continue to build out their disclosure capabilities in preparation of future standards and laws.

### About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 15 years, Millani has become the partner of choice for institutional investors. By providing advisory services on developing strategic ESG communications, engagement and disclosure strategies and integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure and engagement strategies to optimize their market value.

For more information, contact us at [info@millani.ca](mailto:info@millani.ca) or visit our website: [www.millani.ca](http://www.millani.ca)