Consumers' Research
established 1929

Will Hild
1801 F Street
Washington, DC 20006
P : (202) 898 - 0542
info@consumersresearch.org

June 16, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Consumers' Research Comment on the Secruities and Exchange Commisions' Proposal "The Enhancement and Standardization of Climate-Related Disclosures for Investors," File No. S7-10-22

Dear Secretary Countryman,

Consumers' Research appreciates the opportunity to comment on the SEC's proposed rule on climate change disclosures, File No. S7-10-22, announced on March 21, 2022.

As Chair Gensler continues to reiterate, a key rationale for the Commission's justification of the proposal is investor demand.[1] To determine whether this justification is appropriate, we conducted a survey of retail investor views about ESG investing and the SEC's proposed climate rule. Tellingly, our results showed limited interest from retail investors: Our survey of 2,000 retail investors across all U.S. states revealed that retail investors do not prioritize ESG in their investment decision making and instead primarily invest to maximize financial returns on their investments.

Highlights from the survey include:

- **More than half of retail investors ranked ESG as the least important factor when making decisions about their investments**, on average, relative to an investment's growth potential, dividend profile, or financial profile;

- **Retail investors said they were less likely to consider climate change than any of the other global issues presented** such as: the current national economic situation, domestic politics, regulatory developments, and public health;

- **70% of retail investors indicate that the primary use of their investment income is to save for retirement or supplement their income**, as opposed to the 3% who are seeking to drive sustainability and the 2% seeking to drive social change; and

- **More than half of retail investors indicated that they are not likely to pay additional fees for ESG-related products**, which asset managers typically pass on to plan participants.

[1] https://www.sec.gov/news/statement/gensler-climate-disclosure-20220321

DEFENDING CONSUMERS

In our view it is not wholly surprising that these results do not line up with the investor demand cited in the proposed rulemaking. The proposed rule almost entirely relies on the views of institutional investors that either have financial or political motivations to support the proposed rule, or both.

Specifically, the Commission heavily relies on several shareholder advocacy groups who were formed with the express purpose to drive greater disclosure of public companies' climate impact. Regardless of investors' individual views on climate, this goal is driven by policy considerations rather than fiduciary ones and therefore conflicts with both the SEC's Congressional mandate and retail investors priority to save for retirement or supplement their income.

The groups that the SEC relies on to demonstrate investor demand include: *Climate Action 100+, Net Zero Asset Managers Initiative, UN Principles for Responsible Investment, and The Glasgow Financial Alliance for Net Zero.* With the exception of *Climate Action 100+,* these groups are all affiliated with the United Nations, an institution created to broker political agreements amongst governments, not steer capital markets.

Meanwhile, Climate Action 100+ was "formed in the wake of the 2015 Paris Agreement" and is funded by climate activists *(not investors)* such as the Climateworks Foundation, the Children's Investment Fund Foundation, Laudes Foundation and the Sea Change Foundation along with other undisclosed donors.[2]

We also note that many of these organizations have the same institutional signatories. Citing them separately creates the appearance of greater support for the proposal than is actually the case. For instance, as a United Nations organization designed to unite net-zero financial sector-specific alliances, the 450+ signatories of the *Glasgow Financial Alliance for Net Zero* include the same 128 signatories of the *Net Zero Asset Managers* Initiative.[3] These are also the same organizations who have advocated for TCFD disclosure alignment ultimately adopted by the proposed rule.[4]

We recognize that certain asset managers have expressed support for the rule. We note that these asset managers are not the ultimate beneficiaries of the investments they steward, and have their own interests, which do not always align with retail investors. Therefore, asset managers' views cannot be substituted for those of the retail investors who make up our survey respondents.

We also note that many of these asset managers have a vested financial interest in the success of the rule as they are able to charge higher fees for ESG investment products relative to their non-ESG counterparts. *The Wall Street Journal* specifically found that "a firm managing $1 billion in a typical ESG fund, for example, would garner $2 million in annual fees versus managing the standard ETF's $1.4 million."[5] Tellingly, our survey found that a majority of retail investors would not pay higher fees for ESG funds, an indication of the value they place on this asset class.

[2] https://www.climateaction100.org/about/
[3] In addition, signatories of the UN Principles for Responsible Investment include those same signatories from the Net Zero Asset Managers Initiative.
[4] https://www.sec.gov/rules/proposed/2022/33-11042.pdf (Page 26)
[5] https://www.wsj.com/articles/tidal-wave-of-esg-funds-brings-profit-to-wall-street-11615887004

To construct any such ESG fund, these asset managers are required to scan a hodgepodge of disparate climate disclosure to determine which assets would be most appropriate for that ESG-marketed fund. Locating the relevant information for one company would require intensive amounts of resources, let alone doing so for all equities in any given fund. Now, the SEC has helpfully proposed that the asset managers be able to look to specific new sections of company filings for the information needed to design these investment products. One can imagine the considerable cost savings from such a convenience, which the proposal falsely equivocates as exemplifying investor demand.

Asset managers construct these ESG funds even though it is deeply unproven that ESG investing generates financial outperformance for investors. Numerous studies have revealed this to be the case: In 2021, Scientific Beta found that "there is no solid evidence supporting claims that ESG strategies generate outperformance,"[6] while Tilburg University researchers found that "ESG offers no such positive explanatory power for returns during the COVID crisis."[7] An NYU paper in 2020 also detailed that "ESG disclosures are irrelevant to retail investors' portfolio allocation decisions," corroborating our findings that retail investors have limited interest in ESG because they prioritize financial outperformance in their investment decision making.[8] These findings compel us to question if asset managers are selling ESG investment products for their own profit-maximization, which would be a violation of their fiduciary duty that they put their clients' interests above their own.

In a further attempted demonstration of investor demand, the proposal cites public pension funds like CalPERS and CalSTRS numerous times. Support from public pensions is dubious when viewed through the lens of retail investor interests since they are managed by stewards appointed by state officials with wide ranging political motivations, and such officials have touted their motivations to use funds for political aims.

Indeed, we note that asset managers also benefit from similar political motivations both in terms of signaling their own support for politically correct issues, and simultaneously reducing scrutiny from activists on their own businesses. BlackRock's compromise with Mercy Investment Services and Boston Trust Walden in 2020 is one notable example where BlackRock announced a new position on climate change following conversations with the activists, who in turn withdrew their climate resolution directed at the asset manager.[9]

While these demands may explain the SEC's purported rationale for the rule, doing so without recognizing their glaring conflicts of interest remains a serious oversight. Indeed, as a secondary consideration, we would request that the Commission differentiate between asset managers and retail investors when it cites support for the rule.

Further, the proposal fails to even mention or attempts to explain how its ambitious provisions would serve the needs of the 160 million American retail investors who are supposed to be the principal beneficiary of SEC rulemaking. Given the size of this group and repeated reminders from the SEC to focus on protecting main street investors,[10] it is inexcusable that the SEC did not go to greater lengths to assess their views.

---

[6] https://cdn.ihsmarkit.com/www/pdf/0521/Honey-I-Shrunk-the-ESG-Alpha.pdf
[7] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3675920
[8] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3604847
[9] https://www.mercyinvestmentservices.org/article-details.aspx?article=8064
[10] https://www.sec.gov/about/what-we-do

Rather than be influenced to invest in an increasing number of ESG investment products inevitably resulting from this rulemaking, our survey results confirm that *almost all retail investors believe they should be free to buy the investments that they think are best for them and their families, and that their freedom to choose their own investments remains the bedrock of capital markets.* We have serious concern that the proposed rule will facilitate the economic and political interests of a select group of organizations, rather than carefully assessing actual interest from all.

This proposed rule is a serious loss for the retail investors whom the SEC claims to protect. Given the results of our survey, we encourage the SEC to withdraw this Proposal and prioritize future rulemaking that has actual interest from *all* investors.

Sincerely,

Will Hild

Will Hild
Executive Director

Consumers' Research
established 1929

Will Hild
1801 F Street
Washington, DC 20006
P : (202) 898 - 0542
info@consumersresearch.org

# Topline Report

*Consumers' Research Retail Investor Survey: Conducted April 8 to April 19, 2022*

### Q1 - What is your age? Please type a two-digit response. (Regrouped-Generations)

| # | | Percentage |
|---|---|---|
| 1 | Gen Z | 5% |
| 2 | Millennial | 28% |
| 3 | Gen X | 25% |
| 4 | Boomer | 33% |
| 5 | Silent+ | 9% |
| | Total | 2000 |

### Q2 - In which state do you currently reside? (Regrouped-Regions)

| # | | Percentage |
|---|---|---|
| 1 | Midwest | 21% |
| 2 | Northeast | 18% |
| 3 | South | 38% |
| 4 | West | 23% |
| | Total | 2000 |

Consumers' Research
established 1929

### Q3 - What is your gender?

| # | | Percentage |
|---|---|---|
| 1 | Male | 52% |
| 2 | Female | 47% |
| 3 | Other | <1% |
| 4 | Prefer not to say | <1% |
| | Total | 2000 |

### Q4 - What is the highest level of education you have completed to date?

| # | | Percentage |
|---|---|---|
| 1 | Less than high school | <1% |
| 2 | High school graduate | 9% |
| 3 | Some college/vocational school | 20% |
| 4 | College graduate | 43% |
| 5 | Postgraduate | 27% |
| 6 | Prefer not to answer | <1% |
| | Total | 2000 |

## Q5 - Which of the following best describes your employment status?

| # | | Percentage |
|---|---|---|
| 1 | Employed full-time | 49% |
| 2 | Employed part-time | 8% |
| 3 | Self-employed | 6% |
| 4 | Homemaker | 4% |
| 5 | Retired | 31% |
| 6 | Student | 1% |
| 7 | Unemployed | 2% |
| 8 | Prefer not to answer | 0% |
| | Total | 2000 |

Consumers' Research
established 1929

## Q6 - What is your total annual household income?

| # | | Percentage |
|---|---|---|
| 1 | Less than $30,000 | 3% |
| 2 | $30,000 to less than $50,000 | 11% |
| 3 | $50,000 to less than $75,000 | 22% |
| 4 | $75,000 to less than $100,000 | 21% |
| 5 | $100,000 to less than $150,000 | 23% |
| 6 | $150,000 to less than $200,000 | 11% |
| 7 | $200,000 or more | 8% |
| 8 | Prefer not to answer | 0% |
| | Total | 2000 |

Consumers' Research
established 1929

**Q7 - Which of the following best describes the amount of investable assets you currently have? Investable assets include any combination of 401K, IRA or other retirement accounts, savings accounts, online trading accounts, etc. Please exclude real estate and/or any non-liquid assets.**

| # | | Percentage |
|---|---|---|
| 1 | Less than $10,000 | 0% |
| 2 | $10,000 – $99,999 | 23% |
| 3 | $100,000 – $499,999 | 40% |
| 4 | $500,000 – $999,999 | 19% |
| 5 | $1,000,000 – $4,999,999 | 14% |
| 6 | $5,000,000 – $29,999,999 | 3% |
| 7 | $30,000,000 or more | 2% |
| 8 | Prefer not to say | 0% |
| | Total | 2000 |

Consumers' Research
established 1929

## Q8 - Which of the following best characterizes your level of investment knowledge?

| # | | Percentage |
|---|---|---|
| 1 | I am a new investor with little to no knowledge | 0% |
| 2 | I am a new investor but can conduct my own research | 30% |
| 3 | I am an experienced investor but don't conduct my own research | 33% |
| 4 | I am an experienced investor and conduct my own research | 32% |
| 5 | I am a professional that invests for a living | 6% |
| | Total | 2000 |

## Q9 - Which of the following types of investments do you currently have? Please select all that apply.

| # | | Percentage |
|---|---|---|
| 1 | Mutual funds | 67% |
| 2 | Individual company stocks (e.g., AAPL, MSFT, AMZN) | 62% |
| 3 | Exchange-traded funds (ETFs) | 37% |
| 4 | Crypto currencies | 32% |
| 5 | Real Estate (excluding primary residence) | 23% |
| 6 | Government or municipal bonds | 22% |
| 7 | Alternative investments (e.g., commodities, collectibles, private equity) | 20% |
| 8 | Real estate investment trusts (REITs) | 19% |
| 9 | Company bonds | 18% |
| 10 | Equity options | 15% |
| 11 | None of the above | 0% |
| | Total | 2000 |

## Q10 - What level of autonomy do you employ when making investment decisions?

| # | | Percentage |
|---|---|---|
| 1 | I solely make all investment decisions | 46% |
| 2 | I rely on a financial advisor for advice and suggestions, but ultimately, I make the final decision | 32% |
| 3 | My financial advisor makes investment decisions on my behalf based on my guidance | 17% |
| 4 | My financial advisor makes all investment decisions without my input | 5% |
| 5 | Other | 1% |
| | Total | 2000 |

## Q11 - On average, what is your typical investment horizon?

| # | On average, what is your typical investment horizon? Please select one answer. | Percentage |
|---|---|---|
| 1 | Less than 1 year | 6% |
| 2 | 1 to 5 years | 44% |
| 3 | More than 5 years | 49% |
| | Total | 2000 |

Consumers' Research
established 1929

## Q12 - Which of the following industries do you currently invest in? Please select all that apply.

| # | | Percentage |
|---|---|---|
| 1 | Information Technology | 53% |
| 2 | Energy | 46% |
| 3 | Financials | 43% |
| 4 | Industrials | 34% |
| 5 | Communication Services | 32% |
| 6 | Health Care | 29% |
| 7 | Consumer Staples | 29% |
| 8 | Real Estate | 29% |
| 9 | Utilities | 28% |
| 10 | Materials | 23% |
| 11 | Consumer Discretionary | 19% |
| 12 | Other | 7% |
| | Total | 2000 |

Consumers' Research
established 1929

**Q13 - How important are each of the following sources when making investment decisions?**

| # | | Very important | Somewhat important | Not too important | Not at all important | Total |
|---|---|---|---|---|---|---|
| 1 | Financial professionals | 48% | 35% | 11% | 5% | 2000 |
| 2 | Analyst reports | 36% | 46% | 11% | 6% | 2000 |
| 3 | Investment websites | 33% | 43% | 16% | 8% | 2000 |
| 4 | Company website | 28% | 42% | 20% | 10% | 2000 |
| 5 | Company ESG report | 26% | 42% | 19% | 13% | 2000 |
| 6 | ESG ratings (e.g., MSCI, Sustainalytics) | 24% | 39% | 22% | 15% | 2000 |
| 7 | Friends and family | 23% | 31% | 28% | 18% | 2000 |
| 8 | Traditional media | 19% | 37% | 27% | 17% | 2000 |
| 9 | Forums/blogs | 18% | 31% | 28% | 23% | 2000 |
| 10 | Social media | 18% | 21% | 26% | 35% | 2000 |

Consumers' Research
established 1929

## Q14 - Prior to making an investment decision, how likely are you to do each of the following?

| # | Question | Very likely | Somewhat likely | Not too likely | Not at all likely | Not sure | Total |
|---|---|---|---|---|---|---|---|
| 1 | Research and/or inquire about the environmental or social profile of the opportunity | 24% | 31% | 22% | 21% | 2% | 2000 |
| 2 | Research and/or inquire about a company's internal procedures for considering climate-related issues | 24% | 29% | 23% | 22% | 2% | 2000 |
| 3 | Research and/or inquire about the greenhouse gas emissions of the company | 23% | 27% | 24% | 24% | 3% | 2000 |
| 4 | Research and/or inquire about the greenhouse gas emissions of the company's suppliers and customers | 23% | 26% | 25% | 24% | 3% | 2000 |
| 5 | Research and/or inquire about how often the company's board discusses climate-related issues | 23% | 27% | 23% | 25% | 3% | 2000 |
| 6 | Try to predict the laws and regulations that will apply to the company ten years or more from now | 22% | 34% | 22% | 18% | 3% | 2000 |

## Q15 - Which of the following statements apply to you? Please select all that apply.

| # | | Percentage |
|---|---|---|
| 1 | I have purchased stock in a company due primarily to its environmental and social track record | 29% |
| 2 | I have current or previous investments in an ESG-related ETF, mutual fund, or Index fund | 32% |
| 3 | I have sold stock in a company due primarily to its environmental and social track record | 23% |
| 4 | My financial advisor has recommended an investment based on its environmental and/or social track record (either individual stock or fund) | 28% |
| 5 | My financial advisor has recommended exiting an investment due to its environmental and/or social track record (either individual stock or fund) | 18% |
| 6 | None of the above | 37% |
| | Total | 2000 |

Consumers' Research
established 1929

**Q16 - If you wanted to learn about a company's environmental and social profile, which of the following sources of information are you most likely to turn to? Please rank criteria in order of importance, where "1" is most important.**

| # | Question | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1 | ESG report | 21% | 17% | 13% | 14% | 12% | 14% | 10% | 2000 |
| 2 | Webpage with rankings and metrics | 18% | 15% | 17% | 16% | 15% | 11% | 8% | 2000 |
| 3 | Corporate social responsibility report | 16% | 18% | 16% | 16% | 14% | 12% | 8% | 2000 |
| 4 | SEC regulatory filings | 16% | 17% | 18% | 15% | 14% | 12% | 8% | 2000 |
| 5 | Internal Company Communications | 12% | 16% | 16% | 16% | 17% | 12% | 10% | 2000 |
| 6 | Traditional media | 10% | 12% | 12% | 13% | 17% | 24% | 13% | 2000 |
| 7 | Social media | 7% | 7% | 7% | 11% | 12% | 15% | 42% | 2000 |

| # | Field | Mean | Count |
|---|---|---|---|
| 1 | ESG report | 3.6 | 2000 |
| 2 | Corporate social responsibility report | 3.6 | 2000 |
| 3 | Webpage with rankings and metrics | 3.6 | 2000 |
| 4 | SEC regulatory filings | 3.7 | 2000 |
| 5 | Internal Company Communications | 3.9 | 2000 |
| 6 | Traditional media | 4.4 | 2000 |
| 7 | Social media | 5.3 | 2000 |

Consumers' Research
established 1929

**Q17 - Blackrock, the world's largest asset manager, recently announced that it would allow certain institutional clients to vote their own shares in shareholder elections instead of voting for their clients in order to provide more flexibility on shareholder voting. How interested are you in having greater influence in how institutional investors vote on your behalf?**

| # | | Percentage |
|---|---|---|
| 1 | Very interested | 29% |
| 2 | Somewhat interested | 44% |
| 3 | Not too interested | 17% |
| 4 | Not at all interested | 6% |
| 5 | Not sure | 4% |
| | Total | 2000 |

**Q18 - Asset managers typically charge higher fees for ESG-related products (e.g., ESG-focused mutual funds). How likely would you be to pay additional fees for ESG-related products?**

| # | | Percentage |
|---|---|---|
| 1 | Very likely | 18% |
| 2 | Somewhat likely | 26% |
| 3 | Not too likely | 26% |
| 4 | Not at all likely | 25% |
| 5 | Not sure | 4% |
| | Total | 2000 |

## Q19 - To what extent do you read news related to and/or keep up to date regarding the policies and procedures imposed by the SEC on U.S. public companies?

| # | | Percentage |
|---|---|---|
| 1 | I regularly follow SEC actions | 22% |
| 2 | I occasionally read news related to SEC actions | 34% |
| 3 | I am aware of the SEC and its actions, but do not follow on a regular basis | 27% |
| 4 | I do not at all keep up to date on SEC-related news or actions | 17% |
| | Total | 2000 |

## Q20 - Are you aware of the action(s) that the SEC is taking on ESG?

| # | | Percentage |
|---|---|---|
| 1 | Yes | 29% |
| 2 | No | 53% |
| 3 | Not sure | 18% |
| | Total | 2000 |

Consumers' Research
established 1929

## Q21 - What is the primary use of your investment income?

| # | | Percentage |
|---|---|---|
| 1 | Saving for retirement / long-term financial security | 57% |
| 2 | Supplement income | 19% |
| 3 | Saving for an upcoming expense | 8% |
| 4 | Learning about investing | 5% |
| 5 | Drive sustainability/environmental change | 3% |
| 6 | Drive social change | 2% |
| 7 | Support companies | 2% |
| 8 | Make a change within companies | 2% |
| 9 | Other | 1% |
| | Total | 2000 |

Consumers' Research established 1929

**Q22 - Overall, how important are each of the following factors when you make an investment decision? Please rank criteria in order of importance, where "1" is the most important.**

| # | Question | 1 | 2 | 3 | 4 | 5 | 6 | Total |
|---|---|---|---|---|---|---|---|---|
| 1 | Growth potential | 27% | 24% | 18% | 14% | 10% | 7% | 2000 |
| 2 | Income / Dividend profile | 24% | 21% | 17% | 16% | 13% | 9% | 2000 |
| 3 | Company finances | 17% | 20% | 22% | 18% | 12% | 11% | 2000 |
| 4 | Market environment such as industry trends, geopolitical trends or federal reserve policy) | 13% | 12% | 14% | 18% | 24% | 19% | 2000 |
| 5 | Company profile such as brand strength | 11% | 13% | 17% | 22% | 21% | 16% | 2000 |
| 6 | ESG profile (Environmental, Social, and Governance) | 8% | 10% | 12% | 14% | 19% | 38% | 2000 |

| # | Field | Mean | Count |
|---|---|---|---|
| 1 | Growth potential | 2.8 | 2000 |
| 2 | Income / Dividend profile | 3.0 | 2000 |
| 3 | Company finances | 3.2 | 2000 |
| 4 | Market environment such as industry trends, geopolitical trends or federal reserve policy) | 3.8 | 2000 |
| 5 | Company profile such as brand strength | 3.8 | 2000 |
| 6 | ESG profile (Environmental, Social, and Governance) | 4.4 | 2000 |

Consumers' Research
established 1929

**Q23 - Please rank the following topics in order of how much you care about them when making investment decisions. Please rank criteria in order of importance, where "1" is the most important.**

| # | Question | 1 | 2 | 3 | 4 | 5 | 6 | Total |
|---|---|---|---|---|---|---|---|---|
| 1 | The current national economic situation (including inflation, consumer confidence, and stock market movements) | 48% | 16% | 12% | 10% | 7% | 6% | 2000 |
| 2 | Climate change | 13% | 11% | 12% | 11% | 17% | 35% | 2000 |
| 3 | Domestic politics (including the outcome of upcoming elections) | 12% | 24% | 23% | 18% | 13% | 11% | 2000 |
| 4 | Public health (including the COVID-19 pandemic) | 11% | 15% | 15% | 20% | 25% | 14% | 2000 |
| 5 | Regulatory developments | 9% | 22% | 19% | 18% | 16% | 15% | 2000 |
| 6 | Foreign policy (including potential wars) | 7% | 13% | 19% | 23% | 21% | 18% | 2000 |

| # | Field | Mean | Count |
|---|---|---|---|
| 1 | The current national economic situation (including inflation, consumer confidence, and stock market movements) | 2.3 | 2000 |
| 2 | Domestic politics (including the outcome of upcoming elections) | 3.3 | 2000 |
| 3 | Regulatory developments | 3.6 | 2000 |
| 4 | Public health (including the COVID-19 pandemic) | 3.8 | 2000 |
| 5 | Foreign policy (including potential wars) | 3.9 | 2000 |
| 6 | Climate change | 4.1 | 2000 |