Insights: Alert

ICYMI – House Financial Services Committee Starts Fast—and Elevates the ESG Debate

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Under the leadership of Chairman Patrick McHenry (R-NC), the House Financial Services Committee has hit the ground running this Congress. This "A" committee has one of the best benches in Congress on the Republican side and will serve as an important driver of serious policy and substantive legislative oversight for the 118th Congress. If you are skeptical of what this means in a divided government where legislative wins may be limited, Chairman McHenry perhaps put it best: "The next two years of *policy* will set the terms of debate for the next *decade*" (emphasis added). In other words, don't sleep on the Financial Services Committee this Congress—markers are being set and a record supporting future regulatory and legislative action will be built through hearings, markups, and floor activity.

Within just a week, the committee held its (1) Organizational Meeting for the 118th Congress and (2) first full committee hearing of the Congress on combatting the economic threat from China, followed by three subcommittee hearings focused on cutting red tape to enhance (3) capital access and (4) investment opportunities for Main Street as well as on (5) modernizing banking regulations. Noticed with each hearing is a slew of legislative proposals—not to mention the three bipartisan financial services bills that already have sailed through the House. This is just the beginning for a committee whose policy prerogatives are vast and are key to American competitiveness, innovation, economic well-being, job creation, consumer protection, and data privacy.

The inextricable link between financial services and issues impacting Americans every day is a central reason those pushing environmental, social, and governance (ESG) proposals have sought to leverage the financial system as a vehicle to achieve policy outcomes. So it bears highlighting another important development from the recent flurry of committee activity that's relevant to every C-Suite in America—the formation of a Republican Working Group "to combat the threat to our capital markets posed by those on the far-left pushing ESG proposals."

The significance of the selection of Oversight and Investigations Subcommittee Chairman Bill Huizenga (R-MI) to lead the group should not be lost. Congressman Huizenga is a seasoned member of the Committee who led the capital markets portfolio for Republicans until he was term-limited from continuing in that chair this Congress. I had the privilege of working with him directly on a range of issues when he was Chairman of the Subcommittee on Capital Markets. He is thoughtful, substantive, and highly respected when it comes to policy, and he will be deliberate and determined when it comes to oversight.

Chairman McHenry made clear when announcing the group that its mission is to develop a *comprehensive* approach to ESG. One of the often-overlooked aspects of the oversight gavel is that—save for the committee chair—no one is in a better position to appreciate how issues like ESG implicate policy prerogatives that cross the jurisdiction of multiple subcommittees, triage such a range of information, and produce a cohesive report and set of proposals.

The recognition of the need for a comprehensive and cohesive approach to ESG is further reflected in the

composition of the Working Group, which consists of eight additional Financial Services Committee members. Of those, four sit on the Capital Markets Subcommittee—including Chair Ann Wagner (R-MO) and Vice Chair Andrew Garbarino (R-NY)—and four sit on the Financial Institutions and Monetary Policy Subcommittee—including Vice Chair Barry Loudermilk (R-GA).

The regulatory goalposts for sustainability initiatives and reporting are unlikely to be settled in the next two years. Through the formation of the ESG Working Group, Chairman McHenry is highlighting the role responsible, coordinated oversight can play in "set[ting] the terms of debate" for years to come. Republicans on the Financial Services Committee also are demonstrating an interest in ensuring the debate at the federal level is neither singularly focused nor the kitchen-sink approach we are seeing play out at the state level.

Companies and investors need to understand the ESG investment and regulatory landscape will remain fluid and highly scrutinized in the near term, but they also should welcome the formation of the ESG Working Group as an opportunity to reset and realign the policy debate. Public companies and private investors should seize the opportunity to lay the groundwork for right sizing the sustainability regulatory regime by engaging on how singularly-focused financial reporting mandates impact their ability create jobs and generate more positive returns for Main Street investors. And by not just being dismissive of Republicans' concerns but engaging substantively and transparently, financial services firms can protect their ability to service the needs of Main Street America while also offering a range of investment products, including those tailored to specific investment preferences, for market participants to choose (or not).

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