Addressing the "ESG Greenwashing" Critique

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The rapid growth of professionally managed ESG assets has sparked a series of conversations about "greenwashing." However, applying the term "greenwashing" to all ESG assets conflates several issues.

The first issue under the "greenwashing" umbrella is disinformation. Critics allege that products and fund names do not accurately reflect the investment strategies used in the financial products, misrepresenting if and how ESG criteria are used. Secondly, critics rely on a singular subjective understanding of "ESG," but asset managers employ a range of distinct strategies to construct their ESG-oriented portfolios. The diversity in offerings is a strength of the ESG field, not a weakness.

The media's interest in picking up on "contrarian" viewpoints on sustainable investing has sensationalized the conversation around greenwashing, and unfortunately, the media has not seriously examined the claims. For example, former Blackrock employee Tariq Fancy made, in our view, multiple baseless allegations in interviews– he argued that the growth in ESG funds decreases policy action on critical environmental and social issues, and ESG investing will "help contribute to a giant societal placebo" and "slow government action."

US SIF engages with policymakers regularly. Not once have we been told they don't plan to address climate change or income inequality because they expect ESG investors to solve everything. Professional investors understand that sustainable investment is a strategy that contributes to better environmental, social and governance practices; however, they do not see their work as a substitute for policy action. As US SIF, we center system-wide policy change as a key strategy to pursue environmental and social goals. Sustainable investing is not the entire solution, but it is certainly not the problem.

To dispel greenwashing myths, firms must accurately describe how their product fits under the term "sustainable." Our roadmap illustrates the many ways in which firms can integrate sustainable investing. Companies also must provide more transparent and reliable ESG information– the SEC is central to action on disclosure. US SIF first asked the SEC for comprehensive ESG disclosure in 2009. This winter, we expect the SEC to propose clear and comparable reporting regulations on climate, human capital management information and cybersecurity practices.

With disclosure must come enforcement. Earlier this year, the SEC announced an enforcement task force on climate change and ESG to inspect how issuers and asset managers have adhered to their statements and commitments. The SEC also issued a risk alert identifying areas of concern on firms' ESG practices and best practices. Next year, we expect the SEC to propose regulations on how funds represent their ESG characteristics.

We will be monitoring and engaging with the SEC as they move through their regulatory agenda. Please feel free to reach out to us with any questions.

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