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The ESG agenda needs global actionable commitments

For some years now, we have seen an increased focus from the private sector in addressing society's most pressing issues. Now, the ESG agenda has real momentum, and collaboration is key. It is vital that companies across industries work together to achieve the United Nations Sustainable Development Goals (SDGs).

Even before the pandemic, there was an understanding that it would take the creativity, innovation, energy and resources of the private sector to address the major needs of society, as broadly reflected in the SDGs.

Companies have responsibilities to all their stakeholders – shareholders, clients, employees, and partners in the communities where they operate. There is an increasing expectation that companies should integrate ESG considerations and impact into their core purpose, strategy and operations. This is being driven by three big dynamics: 1) widespread understanding and agreement that there are large, systemic global issues that we must address urgently; 2) the growing belief that corporations have a role and responsibility to address these issues (stakeholder capitalism); and 3) an increased understanding – validated by BofA Global Research -- that companies that manage ESG well perform better over time. This, in turn, helps prompt investors to direct capital toward companies with strong ESG characteristics.

However, we need effective principles of governance to ensure companies are really integrating ESG into their operations. Stewardship, accountability, and transparency are the principles companies should follow. Stakeholders are seeking greater transparency around ESG alongside the transparency in financial reporting that companies already provide. However, the current ESG reporting ecosystem is complex, with ratings organizations and standards setters offering different and sometimes contradictory performance metrics and assessments. Companies and their stakeholders may struggle to know which evaluations matter.

Bank of America therefore supports straightforward, global standards for ESG disclosure, so that companies can demonstrate long-term sustainability and update their progress, alongside their financial reporting, in Annual Reports and other filings. We worked with global accounting firms Deloitte, EY, KPMG, and PwC, together with the World Economic Forum, to help develop common metrics drawn from the most prominent and established

standard-setters. More than 70 companies have now signed on to this effort, and that number is growing. The work is contributing to a broader movement toward a global, regulator-approved standard for ESG disclosures. The involvement of private sector companies in this movement is critical.

Private sector action should take place alongside the public sector. Government programs, including statutes and regulations, can be important drivers of change. Often, government defaults to “sticks” – regulation or restrictions if economic concerns don't take the desired actions. But the private sector is leading in many instances, and the public sector can encourage accumulation of private sector participants through incentives. Incentives, combined with regulations, have worked very effectively. In the US, for example, renewable tax credits have driven significant scale-up of wind and solar investments, making them cost effective today.

In Europe, the EU has taken the lead on the fight against climate change, sustaining and even increasing the pace throughout the pandemic. Europe is committed to addressing climate change and driving toward a low-carbon, sustainable future. This is what the EU Green Deal demonstrates: a fully-fledged and purpose-driven plan for Europe to reach its climate neutrality goal. But the Green Deal might consider including incentives to further stimulate private sector engagement and allow a green economic recovery as well as a just transition.

The US is once again at the same table as the EU and the rest of the world, increasing the focus on the ESG agenda. To make real progress, especially in addressing climate change, we need global, actionable commitments and true private-public collaboration and cooperation.