



March 8, 2022

Patrick Brett
Chairman
Municipal Securities Rulemaking Board (MSRB)
1300 I Street NW, Suite 1000
Washington, DC 20005

Mark T. Kim
Chief Executive Officer
Municipal Securities Rulemaking Board (MSRB)
1300 I Street NW, Suite 1000
Washington, DC 20005

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board (MSRB)
1300 I Street NW, Suite 1000
Washington, DC 20005

Re: Perspectives on ESG-Related Disclosure and ESG-Labeled Bond Market Practices in the Municipal Securities Market

Dear Mr. Brett, Dr. Kim, Mr. Smith, and Members of the MSRB:

We, the undersigned members of the Milken Institute Center for Financial Markets' [Program for Excellence and Equity in Public Finance](#),¹ welcome the opportunity to respond to the Municipal Securities Rulemaking Board's recent request for comments.²

The Milken Institute is a nonprofit, nonpartisan think tank that promotes evidence-based research that serves as a platform for policymakers, industry practitioners, and community members to come together in catalyzing practical solutions to challenges we face both here in the U.S. and globally. The Center for Financial Markets conducts research and constructs programs designed to facilitate the smooth and efficient operation of financial markets—to help ensure that they are fair and available to those who need them when they need them.

We commend the MSRB for exerting market leadership and seeking timely input on ESG-related disclosure. As a diverse collection of market participants, we are writing to offer cross-sectoral perspectives on the issues raised by the MSRB's request for public perspectives on environmental, social,

¹ The Milken Institute Center for Financial Markets' Program for Excellence and Equity in Public Finance is a solutions and innovation resource for policymakers, market-makers, issuers, innovators, and academics committed to building best practices in public finance, addressing the challenges of diverse market structure, and creating strong, equitable, and resilient results for all stakeholders in public finance. The program is guided by our Advisory Council.

² See <https://msrb.org/News-and-Events/Press-Releases/2021/ESG-RFI>.

and governance (ESG) practices in the municipal securities market. We do so in full appreciation for the regulatory limits the MSRB has on this matter and over market participants, in the hopes that its inquiry opens the door for deeper collaboration among market participants.

I. Municipal Bond Market and ESG: Some General Perspectives

The \$4 trillion municipal bond market plays a central role in providing an array of essential services and infrastructure needs. As such, the municipal bond market offers a unique opportunity for investors looking to align their investment goals with their consideration of ESG factors from both a risk and impact perspective. For those focused on the more formally labeled markets, the issuance of green, social, and sustainable municipal bonds has increased from a total of \$2.3 billion in 2013 to over \$52 billion in 2021.

II. The ESG Imperative Is Here

The need to define, frame, and report on ESG is here. The question is how this important imperative can be addressed effectively and uniformly given multiple stakeholder perspectives and interests. ESG disclosure demands come from large and small investors who want to understand how various ESG factors contribute to the risk analysis of municipal bonds and bond return. Issuers are eager to communicate their efforts to mitigate risks and improve and measure ESG impact and outcomes in the delivery of public services and infrastructure but have limited resources to engage in ad hoc inquiries. Lastly, a host of other public finance stakeholders, such as policymakers, taxpayers, and advocacy groups, are interested in whether and how climate risk or social factors affect their communities.

III. Meeting the ESG Imperative: Acceleration Recommendations

We recognize that the municipal market structure is complex and fragmented, and there are differing goals for various ESG stakeholders. Uniform perspectives may be difficult to achieve. The question is how to accelerate clear, efficient, equitable, market-savvy, and data-supported ESG information that all stakeholders can use effectively. We believe the key acceleration factors involve:

A. Clarity in Language and Meaning:

The current ESG dialogue needs to be clearer and more disciplined about what ESG is and is not to all key stakeholders.

- Sustainability, ESG risks, and positive community impact are complex and often conflated topics. The ESG data needed to assess these separate topics are also complex and difficult to collect.
- ESG is not an asset class. It refers instead to environmental, social, and governance factors that are used for two distinct purposes, which are often conflated and confused with each other: (1) to identify risks associated with a prospective or existing investment, and (2) to disclose and measure the impact of activities and programs that are funded with bond proceeds.
- Without a common language, market participants often talk past each other. Some investors care primarily about what ESG factors say about risks and their influence on returns, while others focus on how those factors can measure impact. Unfortunately, the same set of data and reporting doesn't necessarily assist both risk analysis and impact measurement. When it comes to what "ESG" means for the municipal bond market, defining "ESG risk variables" versus "impact variables" can create confusion while attempting to measure each.
- Issuers are equally diverse in their approach to the topic thanks to a range of understanding, resources, and incentives. For some, reporting is seen as a purely economic tradeoff, where the absence of regulatory clarity makes inconsistent investor requests an additional, if not optional,

request with more risk than reward. For others, the priority of highlighting policy leads to a narrow focus on specific outcomes rather than a holistic view.

Recommendations: ESG should not be confused as a label. We propose using the term ESG to refer to relevant and material data pertaining to potential investment risks. To reduce confusion, we would recommend avoiding the term ESG when referring to the labeled bond market, instead using terms such as Green Bonds, Social Bonds, Community Equity Bonds, Sustainability Bonds, and Better Governance Bonds to refer to bonds designated for certain environmental, social, sustainable projects, and governance improvements. Most importantly, along with clarity about what ESG is and is not, both investors and issuers need to focus more on the specific information investors need and what issuers can do to provide these data. ESG integration and sustainable investing are growing globally, but many market participants are not aware of all the opportunities municipal bonds provide to evaluate these investment factors.

B. Data and Reporting:

Key stakeholders currently crave better data, metrics, and standardization on reporting. This effort will require patience and transparency in all cases and coordinated guidance and intentional alignment on a case-by-case basis.

- All market stakeholders need to understand which ESG factors are material to evaluating risk within a community and its assets, and share information about those factors in a format that minimizes information asymmetry. In some cases, where data are not fully available now, issuers could still provide qualitative assessments and disclosures until such data are more fully available.
- Analyzing ESG risks is not new to municipal bond investors. Information culled from readily available issuer disclosures is used now by investors to evaluate flood, earthquake, wildfire, hurricane, pollution, education, health-care, crime, and other social risks. Investors need better tools (technology) to measure impact and change. But investors do need to be more disciplined/precise/clear about data they need, not just what they think they want.

Recommendation: Disclosure and reporting frameworks must be designed to withstand evolving domestic and international regulatory environments while providing flexibility to market participants to adapt to new and complex factors. Guiding principles already established by organizations like the Task Force on Climate-Related Financial Disclosures, the Principles for Responsible Investment, or those developed in the future on racial equity concerns could be utilized to assist in this effort. These efforts could also help market participants key in on what factors are material and needed by investors versus what is simply desired by a sub-set of investors.

C. Issuer Capacity:

Issuers have a capacity challenge to meet the diverse demands of investors for ESG-related information. In the absence of clear, universal metrics, issuers should identify how bond proceeds are being used in a way that tells their ESG story in the description of a project, even if the threshold of “materiality” is in question. For example, constructing and equipping a new school may increase energy efficiency, improve student and teacher safety, and expand access to modern technology. Renovation of an underutilized school may increase space for adult education, workforce training opportunities, and community engagement while mitigating the displacement of students from their neighborhoods and addressing educational disparities.

Recommendations: To help issuers meet the capacity challenge, we support convenings, possibly initiated through MSRB leadership or cross-sectoral partners, that bring together private-sector experts, government associations, and not-for-profit organizations to broaden understanding of material risks. Through these dialogues, communities could identify early warning signals to improve the financial creditworthiness and ESG awareness of communities through enterprise risk management and other

emerging best practices. These dialogues could also help assess what capacities and skills need to be supported and strengthened by federal, state, or other forms of investments that reduce life cycle risk to investors, issuers, and taxpayers. Standardized questionnaires created by trade groups, where issuers could further highlight data and capacity challenges, might also be a good step to explore.

D. The Role of MSRB and Other Market Stakeholders:

We commend the MSRB for exerting market leadership and using its market presence to convene and solicit thoughtful input. While we present our views on considerations for practices, we support evolving to a cost-effective disclosure framework for ESG that works for issuers, investors, and their advisors. We view the MSRB's primary role as facilitating "democratizing" access to disclosures through its EMMA website, which makes material information equally available to professional and retail investors alike. As such, changes to the MSRB's EMMA system and voluntary guidelines will need to be embraced by the market. And while the standard for disclosure in the municipal market is "materiality" of risk, we believe that fulsome ESG disclosures will go a long way to satisfy the demands of investors and the citizenry alike, allow issuers to tell their risk mitigation success stories, open the market to additional investor classes, and demonstrate the commitment of our market to equity, transparency, and good government.

Sincerely,

Olivia Albrecht, Managing Director, Global Head of ESG, TCW Group*

Dan Carol, Senior Director, Milken Institute Center for Financial Markets

Natalie Cohen, President, National Municipal Research*

Gary Hall, Partner, Siebert Williams Shank & Co., LLC*

Caitlin MacLean, Senior Director, Innovative Finance, Milken Institute

David Narefsky, Partner, Mayer Brown*

Hector Negroni, Partner, Foundation | Credit*

Lois Scott, Epoch Advisors and Advisory Council Chair*

Courtney Shea, Retired Managing Member, Columbia Capital Management*

Daniel S. Solender, Partner & Director of Tax-Free Fixed Income, Lord Abbett*

*Denotes members of the Milken Institute Public Finance Advisory Council.
Organization names for affiliation purposes only.