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ESG Issues on the ‘Mind’ of the Muni Market’s Regulator.

- **MSRB’s Kim says regulator is looking at rise of ESG in munis**
- **New strategic plan includes promoting diversity in industry**

The head of the \$4 trillion municipal securities market’s regulator said the explosion of environmental and socially minded investing is an area it’s watching closely.

Mark Kim, chief executive officer of the Municipal Securities Rulemaking Board, said in an interview that the board is focused on the quickly growing environmental, social, and governance sector of the market.

And he said it’s possible that the U.S. Securities and Exchange Commission could start looking at it as well after its chairman, Gary Gensler, said this month that he’s asked his staff to look into ways to bring transparency to asset classes like municipals.

“ESG is going to be one of the issues that will be on our mind and will be on the mind of the SEC as well when it comes to the municipal securities market,” said Kim, who took his post last year. He said the MSRB is interested in the issue from the point of view of disclosure.

ESG was one of the areas mentioned in the MSRB’s strategic plan it’s releasing Monday, which will guide its activity for fiscal 2022 through 2025. The plan outlines goals, such as modernizing its rulebook and using data to strengthen market fairness.

ESG investing has grown in popularity in the muni market as it has in other asset classes. Sales of green muni bonds remain strong, with more than \$10 billion sold in 2021, and some investment firms have debuted funds focused on sustainable investments. But municipal issuers still aren’t disclosing enough information around risks, such as those related to the environment, according to a July report by Principles for Responsible Investment, a United Nations-backed group that promotes sustainable investing.

The MSRB’s strategic plan says the regulator will “coordinate with regulatory and industry efforts, promote dialog and use MSRB data to inform the market’s understanding of environmental, social and governance (ESG) factors and emerging issues.” Kim said the MSRB plans to issue a request for information before the end of the year to get feedback from members of the industry on the topic.

Diversity Goal

The MSRB’s strategic plan also says the regulator has a commitment to “diversity, equity and inclusion” and mentioned the importance of seeking diverse perspectives when coming up with its rules.

Kim said that starts with the MSRB’s governance, and said he’s proud that women make up two-thirds of its new board starting in October. It’s partnering with the Financial Industry Regulatory Authority on an initiative to better understand the challenges facing minority- and women-owned businesses in the industry and if there are any “undue” burdens that MSRB rules place on them, he

said.

“This is a really important question — it’s one that we’re going to engage on directly with market participants, and we’re also partnering with our fellow regulators to address this issue more systemically across the entire financial services industry,” Kim said.

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