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['Perverse' GOP Rules Risk Alienating Big Finance: ESG Regulation.]

As key GOP figures ban banks and investors in their states from taking environmental, social and governance risks into account, the global finance industry has mounted a surprisingly united counter-attack.

BlackRock Inc. has called the strategy "bad for the business climate," Wall Street titans including Goldman Sachs Group Inc. have withdrawn from the Texas muni market rather than abandon ESG, and countless umbrella groups representing big finance have warned that efforts to put the ESG genie back in the bottle are futile.

Nathan Fabian, chief responsible investment officer at the United Nations-backed Principles for Responsible Investment, whose members include well over 5,000 financial firms across the world, called the Republican attack on ESG "perverse."

Taking ESG risks into account is "part of the fiduciary role" of a financial firm, he said in an interview. "To say that they shouldn't be thought about is a basic breach of a duty of care and diligence."

US savers seem to agree. According to the Schroders 2021 US Retirement Survey, nine of every 10 defined-contribution plan participants who were aware of their plan's ESG options invested in those funds.

Lawyers also are following the GOP's anti-ESG campaign. Heather Wyckoff, partner at Schulte, Roth & Zabel who advises institutional investors and asset managers on fund formation, said ignoring ESG removes a tool designed to protect returns.

"I don't see how they can do so without dialing up the risk," she said in an interview. ESG "is inextricably tied to a profitability analysis."

In Florida, Governor Ron DeSantis has ordered state pension funds to ignore ESG risks, while Texas last year passed a law that cut off Wall Street banks from its municipal debt market because of their refusal to renounce ESG. Several other Republican states are planning similar measures.

"It's a very perverse set of outcomes potentially for those states that are actually banning, restricting, using anti-market approaches in some way, to try and protect industries that we all know have to transition," said Fabian.

The US Department of Labor has proposed removing barriers to considering ESG in pensions management. Morningstar Inc. estimates that 97% of respondents support the DOL's proposal. The American Retirement Association says it expects a final decision by the end of the year.

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