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**Testimony Before the Oklahoma House Committee on Banking, Financial Services
and Pensions Regarding HB 1617**

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Chairman Lepak and Members of the Committee:

Thank you for holding this hearing on HB 1617, the Oklahoma Public Finance Protection Act, which would combat environmental, social and governance (ESG) scoring systems and ensure state pension funds are invested solely to achieve the maximum return on investment for pensioners, rather than advancing social or political causes that [may likely lead to lower returns](#)ⁱ or [underperformance](#).ⁱⁱ

My name is Tim Benson, and I am a policy analyst with Heartland Impact. Heartland Impact is the new advocacy and outreach arm of The Heartland Institute. Both are independent, national, nonprofit organizations working to discover, develop, and promote free-market solutions to social and economic problems. Heartland specializes on providing state lawmakers the policy and advocacy resources to advance free-market policies towards broad-based economic prosperity.

ESG scores are essentially a risk assessment mechanism increasingly being used by investment firms and financial institutions that forces large and small companies to focus upon politically motivated, subjective goals which often run counter to their financial interests and the interests of their customers. Companies are graded on these mandated commitments to promote, for example, climate or social justice objectives. Those that score poorly are punished by divestment and reduced access to credit and capital.

To combat this, the Public Finance Protection Act states that a fiduciary must, during an evaluation of an investment, “take into account only pecuniary factors. Plan fiduciaries are not permitted to promote non-pecuniary benefits or any other non-pecuniary goals. Environmental, social, corporate governance, or other similarly oriented considerations are pecuniary factors only if they present economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories.”



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[As Heritage Action for America noted](#) of a similar bill in Indiana, “using asset managers that engage and vote shares based on ESG can reduce the value of pension fund assets over the long-term For example, Blackrock, the world’s largest investment firm, has voted against directors for failing to set emissions reduction targets or for increasing exposure to fossil fuel assets such as coal. In 2020, Blackrock voted against the directors of a utility for increasing its exposure to coal related assets, even though such exposure would no doubt have been financially beneficial. Such actions prevent companies from making money during periods when being anti-ESG is profitable. Over time, this will reduce the value of pension fund assets.”ⁱⁱⁱ

Legislators should also take note of the implications ESG investing could mean for Oklahoma’s agriculture sector. A [recently released report](#) from Ohio’s Buckeye Institute has found that operating expenses for farmers under an ESG reporting system would increase by 34 percent, leading to more expensive groceries.^{iv} Items like American cheese (79 percent), beef (70 percent), strawberries (47 percent), and chicken (39 percent), just to name a few examples, would increase significantly.^v Overall, the report estimates a 15 percent total increase in household grocery bills if ESG scoring is allowed to be implemented.^{vi}

HB 1617 further provides that [proxy voting](#) must be directed or exercised by a representative of the fiduciary in accord with the provisions of this law.^{vii} Currently, only two firms—Institutional Shareholder Services (ISS) and Glass Lewis—control 97 percent of the proxy advisory market and have stridently committed to ESG principles. ISS and Glass Lewis are currently under scrutiny by [several state attorneys general](#) and [the United States Congress](#) for collusion and antitrust violations.^{viii, ix}

Critics of anti-ESG legislation have charged that bills such as HB 1617 distort the free market and could possibly lower a state’s credit rating. However, the true distortion is being perpetrated by those seeking to use the financial agencies as a de facto governmental regulator.

By allowing ESG to gain a foothold in Oklahoma, Sooner State legislators would be perpetuating this distorted marketplace, and nothing in the bill forces Oklahoma fiduciaries to use uneconomical investment options. By clarifying the fiduciary duties of Oklahoma’s pension fund managers, and by insisting that maximizing the return on investment for clients be their only guiding principle, the members of this committee can help ensure the long-term fiscal health of the state’s pension systems and make sure that promises proffered to state pensioners will be kept. Heartland Impact strongly recommends you pass the Public Finance Protection Act.

Thank you for your time.



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Heartland Impact can send an expert to your state to testify or brief your caucus; host an event in your state; or send you further information on a topic. Please don't hesitate to contact us if we can be of assistance! If you have any questions or comments, contact Cameron Sholty, at csholty@heartlandimpact.org or 312/377-4000.

ⁱ Sanjai Baghat, "An Inconvenient Truth About ESG Investing," *Harvard Business Review*, March 31, 2022. <https://hbr.org/2022/03/an-inconvenient-truth-about-esg-investing>

ⁱⁱ Brian Ponte, "Sustainable US funds suffer brutal fourth quarter in 2022," *Financial Times*, February 10, 2023. <https://www.ft.com/content/153c8555-e4d0-4c59-88f0-368656fbb3ad>

ⁱⁱⁱ Heritage Action for America, "Myth vs. Reality: Indiana's Bill to Combat ESG (HB 1008)," February 1, 2023. <https://heritageaction.com/blog/myth-vs-reality-indianas-bill-to-combat-esg-hb-1008>

^{iv} Trevor W. Lewis and M. Ankith Reddy, *Net-Zero Climate Control Policies Will Fail the Farm*, The Buckeye Institute, February 7, 2024. <https://www.buckeyeinstitute.org/library/docLib/2024-02-07-Net-Zero-Climate-Control-Policies-Will-Fail-the-Farm-policy-report.pdf>

^v *Ibid.*

^{vi} *Ibid.*

^{vii} Will Kenton, "What Is a Proxy Vote, and How Does It Work? With Examples," *Investopedia*, December 29, 2020. <https://www.investopedia.com/terms/p/proxy-vote.asp>

^{viii} Aishwarya Nair and Ross Kerber, "Republican state officials question proxy advisers ISS, Glass Lewis over ESG," *Reuters*, January 18, 2023. <https://www.reuters.com/world/us/republican-stateofficials-question-proxy-advisers-iss-glass-lewis-over-esg-2023-01-18/>

^{ix} Lydia Moynihan, "House probe into ESG violations expands to proxy advisors ISS and Glass Lewis," *New York Post*, December 21, 2023. <https://nypost.com/2023/12/21/business/house-judiciaryprobe-into-esg-expands-to-iss-and-glass-lewis/>