

HCS HB 824 -- INVESTMENT DISCLOSURES

SPONSOR: O'Donnell

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Financial Institutions by a vote of 13 to 0.

The following is a summary of the House Committee Substitute for HB 824.

This bill governs disclosure to clients when a broker-dealer, as defined in the bill, or an investment adviser or its representative, as defined in the bill, incorporates a social objective, as defined in the bill, or a nonfinancial objective into certain aspects of their advisory business relating to the purchase or sale of a security or commodity or the selection of a third-party manager to manage the investments in their clients' accounts.

The bill defines "socially responsible criteria" as any criterion that furthers international, domestic, or industry agreements relating to environmental or social goals; corporate governance structures based on social characteristics or social or environmental goals.

The disclosure obligation is satisfied by providing prior disclosure and obtaining the written consent and acknowledgment from the client. The bill details the language to be included in a written consent.

This bill regards the nondisclosure or incomplete disclosure of material fact or other deceptive practices as dishonest or unethical business practice.

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPOSERS: Supporters say that the bill requires the financial advisers to disclose to the clients environmental or social objective goals and corporate governance structures (ESG). The financial advisers need to obtain written consent from the clients. The clients money should be invested after providing the disclosure of all material facts which constitutes consumer protection. There is a need to promote transparency and protect the financial future of Missourians.

Testifying in person for the bill were Representative O'Donnell; Jay Ashcroft, Secretary of State; and Gregory Pfister, Opportunity Solutions Project.

OPPONENTS: Those who oppose the bill say that this bill is a new mandate on businesses. Every firm would have to evaluate if financial disclosure is warranted; for example, at the time of initial advising, anytime advice is given and when a financial transaction occurs. This results in additional regulatory burdens. The definitions in the bill do not provide clarification and social and environmental goals are problematic.

Testifying in person against the bill was the MO Chamber of Commerce.

OTHERS: Others testifying on the bill say there are no problems with the disclosure language being included in the bill. The Securities and Exchange Commission needs to make the definitions relating to ESG clearer.

Testifying in person on the bill was Michael Berg, Sierra Club Missouri Chapter.

Written testimony has been submitted for this bill. The full written testimony and witnesses testifying online can be found under Testimony on the bill page on the House website.