REVERSEinquiries

FINRA Tips on ESG Investing

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The appetite for socially responsible investing has intensified over the past decade, with particular emphasis on environmental, social and governance ("ESG") factors. This trend has led wealth managers, broker-dealers and investment advisers to examine ESG factors of public companies through public filings and disclosures as an increasing number of retail investors are becoming more interested in ESG investments, including structured products linked to ESG-themed indices.

On December 11, 2019, FINRA published an article explaining how each ESG investment "is unique, and should be evaluated on its own terms." This type of investment uses a variety of ESG criteria in selecting specific investment components with the primary aim of generating competitive financial returns while enabling a positive impact on society. Positive impacts on the environment may include clean energy technology and water conservation; on society, the promotion of human rights, gender equality, fair labor standards and safe working conditions; and on governance, anti-bribery and corruption policies and board diversity.

FINRA reminded ESG investors to keep these tips in mind:

1. Know one's investment goals and risk tolerance.
2. Understand the ESG fund's investment criteria.
3. Be alert to potential "green washing."
4. Do a values check.
5. Stay diversified.
6. Be prepared for lack of "criteria consistency."
7. Be on the lookout for "green" scams.
8. Look beyond marketing materials.
9. Know and compare fees. For more details, a copy of the FINRA article is available here.

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