Columbia | SIPA
Sustainable Investing Research Initiative

SUMMARY

Columbia University Sustainable Finance Seminar

SFS14:
When Visibility Changes Responsibility:
Governance, Duty, and the Future of Sustainable Finance

June 3, 2026

Overview

This seminar shifted from earlier discussions of measurement and reporting to the deeper structure of financial governance, focusing on whether institutions that allocate capital are prepared to manage systemic risks such as climate change, biodiversity loss, inequality, and public-health crises that cannot be avoided through diversification. The presenters argued that voluntary disclosure has reached its limits and that lasting change will require reforms to fiduciary duty, corporate governance, and legal definitions of risk. They highlighted the growing importance of retirement assets and the potential for trustees, guided by duties of loyalty and impartiality, to drive transformation, while also considering practical legislative and institutional measures that could be implemented if political conditions allow.

Part I – Keynote Presentation

The Limits of Voluntary Disclosure

The first presentation traced roughly three decades of progress in private and multi-stakeholder standard-setting and then examined why this progress has not produced change on the scale needed. The speaker described a shift in expectations for what companies are expected to disclose and their responsibilities toward community and the environment while remaining profitable. Frameworks such as the triple-bottom-line reporting standard, investor-driven environmental disclosure initiatives, and climate-related financial disclosure regimes were recognized for building a substantial institutional foundation, some of which have contributed to the emerging global baseline.

Despite these developments, the speaker noted that social and environmental harms continue to be financed by major financial institutions, and significant challenges remain. Biodiversity loss continues, global emissions are still rising even as some economies reduce the carbon intensity of growth, and economic inequality remains high. Artificial intelligence was noted as adding pressure in several areas, including energy and water demand and potential job displacement.

The presentation highlighted a distinction between two types of voluntary initiatives. Market-supporting measures, mainly disclosure, have been largely successful and have sometimes become law in jurisdictions such as the United Kingdom, the European Union, and Japan. Market-limiting measures, which ask financial institutions to restrict profitable activities such as financing fossil-fuel expansion, have been less effective. The speaker cited the rapid decline of a major net-zero financial alliance as an example, suggesting that voluntary commitments alone are unlikely to constrain profitable business in a competitive industry. The conclusion was that voluntary standards are important and show what is possible, but additional binding measures are needed to align finance with broader societal and environmental goals.

Reforming Fiduciary Duty and Corporate Governance

The second presentation built on the conclusion of the first, suggesting a shift in the corporate-governance model. The speaker described the current model as focused on maximizing shareholder wealth at the level of individual firms, summed across all firms to produce what is assumed to be an efficient economy. Instead, the speaker proposed prioritizing economy-wide retirement security, even if this leads to less efficient allocation for individual companies. This approach was called “trustee primacy.” Because lobbying against entrenched interests on all systemic issues is unlikely to succeed, the speaker recommended focusing on a single, achievable objective: empowering retirement trustees.

The argument emphasized the large scale of retirement capital, which has grown from a few trillion dollars globally in 1990 to roughly seventy trillion today and now represents a major share of financial assets in the United States. Surveys suggest that retirees generally act to minimize risk rather than maximize wealth, favoring steadier outcomes. This aligns with trustees’ duties to minimize large losses, assess material risks, and act impartially between current and future beneficiaries. In this context, systemic-risk mitigation by trustees is financially sound because it reduces risk to retirement portfolios and enjoys political support, unlike climate-focused initiatives.

The main challenge is that actions that benefit the system in the long term may impose short-term costs on individual companies, which current fiduciary rules do not allow. This limitation was traced to the 1992 modernization of the prudent-investor standard, which incorporated modern portfolio theory and the efficient-markets hypothesis, treating systemic risks as random and unforeseeable, and therefore outside prudent management. Proposed reforms included redefining risk to focus on the probability of loss to the entire portfolio, extending fiduciary duties explicitly to systemic risk, and applying a precautionary principle from environmental law to prevent inaction when scientific uncertainty exists. Because the prudent-investor standard is interpreted by legal bodies, these changes could proceed through expert rulings rather than waiting for legislation. Additional ideas included federal corporate chartering, binding shareholder resolutions, stronger consequences for failed director elections, and developing a method to adjust returns for the probability of loss, which does not yet exist.

A United Kingdom Perspective on Reform and Accountability

The third presentation provided a United Kingdom perspective based on the speaker's experience as a pension trustee. Drawing on lessons from the 2008 financial crisis, the speaker argued that losses experienced by savers often result from failures in the broader financial system. Current legal and governance frameworks, the speaker mentioned, were developed when risks were assessed primarily at the company level and may not be well suited to addressing systemic risks. The speaker mentioned that pension beneficiaries are not only investors but also workers, consumers, patients, and citizens whose long-term well-being depends on the health of economic, social, and environmental systems.

Reflecting on more than a decade of reform efforts, the speaker explained that fiduciary duty has often been interpreted more narrowly in practice than required by law. Trustees, the speaker argued, are already permitted, and in some cases required, to consider long-term risks. As responsible investment became more widely accepted, attention shifted from whether trustees could consider systemic risks to what actions they should take in response. This work led to proposals for legislative reform, including a model bill developed with pensions lawyers and later amendments to pension legislation prepared with support from parliamentarians across political parties. Although the amendments were not ultimately adopted, the process resulted in a government commitment to issue statutory guidance. The speaker described this as a positive step while noting that guidance does not provide the same certainty as legislation.

The presentation concluded by arguing that reforming fiduciary duty alone is not enough. Even with stronger legal obligations, most pension savers remain distant from the institutions making decisions on their behalf and have limited opportunities to obtain information, seek explanations, or hold decision-makers accountable. The speaker pointed to early experiments with member assemblies and proposed complementing fiduciary-duty reform with new accountability mechanisms that would strengthen member participation and oversight. The argument was that while earlier efforts helped make systemic risks more visible, the next stage of reform should focus on building governance systems capable of responding to those risks in an effective and accountable way.

PART II – OPEN DISCUSSION

Translating Ideas into Draft Legislation

Much of the discussion focused on moving from analysis to concrete legal proposals. The moderator mentioned the importance of having draft legislation ready in case a political opportunity arises, noting that past moments of rapid reform were missed because ideas existed but no legislative text was prepared. Participants discussed who should undertake drafting, highlighting that amendments to trust law often go through expert legal bodies and uniform-law commissions. Engaging these legal experts may be more effective than approaching legislators directly.

The Power and Fragmentation of Asset Owners

A recurring topic was how much influence asset owners actually have. One argument emphasized that large pension funds, such as single schemes in the Netherlands and the United Kingdom, cover a significant portion of national populations and could potentially exert greater influence, including by voting on boards and executive pay. A trustee from a United States public fund offered a different perspective, describing a fragmented system of many small funds reliant on consultants and with limited authority over portfolio companies. This contrast highlighted consolidation, as seen in the United Kingdom, as one possible route to greater influence, while recognizing that fragmentation is a structural constraint on owner power.

Education, Lobbying, and Misaligned Intermediaries

Participants also discussed the practical tools for influence. Several participants mentioned that trustees may face challenges in distinguishing systemic from idiosyncratic risks, making education for both trustees and beneficiaries essential, particularly in connecting systemic risks to the concrete financial security that savers value. Others argued that large pension funds should hire professional lobbyists instead of relying on stewardship teams not suited for this role, noting the advantage of representing a substantial portion of the public. A related concern was that intermediaries paid by asset owners sometimes act against the interests of beneficiaries. This prompted proposals for requiring asset managers to disclose how their lobbying aligns with beneficiary interests, similar to transparency campaigns in utility lobbying funded by ratepayers.

The Narrow Materiality of the Global Standard

Several participants noted a central limitation of the emerging global disclosure standard. While it focuses on the information needs of investors, it only considers entity-level prospects and excludes systemic risk. One participant reported confirming with the standard-setter that systemic risk is indeed outside the scope, a restriction often misunderstood by investors. This narrow focus was connected to the seminar's broader theme, as the definitions of materiality and fiduciary purpose that exclude systemic concerns reinforce each other in a self-perpetuating cycle. The moderator described this as a "frame lock" linking fiduciary duty, portfolio theory, and accounting, which tends to provide fiduciaries with reassuring but limited information. Reform, according to this view, would require breaking this loop at multiple points. Participants also noted that encouraging the standard-setter to broaden its scope would likely require building investor demand for systemic metrics, since standard-setters aiming for adoption are unlikely to move ahead of the market on their own.

Whether Reform Reaches Corporate Behavior

A recurring question was whether empowering trustees would actually influence corporate behavior. One participant questioned whether companies would consider anything beyond their own interests or the health of their sector, even if fiduciaries received a clear mandate to address systemic risk. Suggested levers included more assertive voting on boards and executive pay, governance provisions with lasting effect, and stronger use of director elections, as shareholder resolutions were seen as insufficiently binding. Participants also discussed executive compensation, noting that heavy reliance on stock options, designed to align managers with shareholders, may hinder systemic reform. One participant proposed a more structural alternative of flat executive pay.

Reasons for Strategic Optimism

Despite the challenges, the moderator encouraged participants to consider the possibility of rapid change. Historical examples show that crises and shifting political conditions can produce major legislative change quickly. The argument was that demand for structural reform is real and widespread, some ideas from this community have previously approached wide acceptance, and the institutional friction against reform may be diminishing. Participants were urged to treat the current period as preparation, ensuring that well-developed proposals are ready when conditions allow. The importance of allied networks, including sustainable-business coalitions and worker associations, was emphasized as a means to carry reforms forward.

PART III – CONCLUSION AND ACTION-ORIENTED PRIORITIES

Drafting Model Legislation in Advance

A primary proposal focused on the proactive drafting of model legislation to ensure readiness for potential shifts in the political landscape. By convening a dedicated working group supported by seasoned legal experts and aligned organizational networks, stakeholders can translate conceptual reforms into highly specific, actionable statutory text. This preparation is designed to prevent the historical pitfall of squandering brief windows of rapid legislative change, such as those observed in the aftermath of structural crises, by ensuring that proposals are immediately available for legislative consideration.

Modernizing Trust Law

To address the limitations of the current fiduciary framework, targeted engagement with authoritative legal institutions, such as the American Law Institute and the Uniform Law Commission, is recommended. This effort should focus on modernizing the Prudent Investor Rule by shifting the definition of risk reduction from the volatility of individual assets to the probability of systemic loss across the entire portfolio. Furthermore, formalizing the integration of the precautionary principle into trust law would establish a legal basis for fiduciaries to address foreseeable systemic threats even in the absence of absolute scientific certainty.

Strengthening Corporate Governance

Recognizing the limits of disclosure frameworks in changing entrenched corporate behavior, several participants stressed the need for stronger corporate governance mechanisms. Proposed reforms included federal corporate chartering to establish consistent obligations across firms, binding shareholder resolutions, and stronger consequences for directors who fail to receive majority shareholder support. Participants also discussed reforming executive compensation, arguing that heavy reliance on stock options may encourage a focus on short-term company performance at the expense of broader systemic considerations. One proposal was to move toward flatter compensation structures to reduce incentives tied exclusively to share-price performance and support longer-term resilience.

Enhancing Beneficiary Voice

As fiduciary responsibilities expand to encompass systemic risk management, it is equally important to develop parallel mechanisms that empower the underlying risk-bearers. This calls for the conceptualization of frameworks resembling a Pension Member Voice and Accountability Act, which would legally endow beneficiaries with explicit rights to information, explanation, and oversight. By adapting democratic tools such as deliberative forums and structured member assemblies, the financial system can ensure that the evolution of fiduciary duty remains directly accountable to the workers, consumers, and citizens whose long-term economic and social well-being is intrinsically tied to these capital allocation decisions.

Expanding Analytical Tools

Implementing systemic fiduciary duties requires specialized analytical methodologies currently absent from modern portfolio theory. Financial researchers should prioritize creating advanced return-adjustment frameworks that account for the probability of systemic loss rather than traditional volatility. Bridging these methodological gaps would provide fiduciaries with the empirical models necessary to evaluate system-level strategies.

Investing in Education and Coalition-Building

Advancing structural reforms necessitates educating pension trustees and beneficiaries, explicitly linking systemic risks to their pecuniary impact on retirement security. Concurrently, coalition-building should integrate diverse stakeholders to address institutional frictions. A critical tactic involves demanding transparency in asset manager lobbying to ensure alignment with the capital providers' systemic interests.

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