

People want to invest ethically, and it reflect their e...

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According to a report in the [FT this morning](#) the amount of money flowing into Exchange Traded Funds (ETF) of shares that invest using environmental, social and governance (ESG) principles has increased threefold in Europe in the first quarter of 2021. They are now the most popular funds in Europe, although in the USA they are still a very long way behind.

But, there are problems. I would call them major problems. As one commentator in the FT is noted as saying:

[There are also] concerns as to how much difference ESG investing was really making, given that the raw company-by-company data that rating agencies base their decisions on is "self-reported, self-serving and voluntary".

I agree, entirely. Right now there is no certain data on this issue, and nor will there be on environmental issues whilst it remains outside the financial statements of companies, and subject to light touch audit, at best, when only refereed to in sustainability reports as is the current plan from the likes of the International Financial Reporting Standards Foundation. The risk of greenwash around such audits is enormous.

The risk of governance-wash is also very high. As the article also notes, most of the ESG funds feature companies like Google, Facebook and Amazon very prominently in their portfolios and yet all are widely considered to be abusing tax havens tax opportunities for gain, and that is not indication of good governance to me.

Is the ESG inflow indication of real change then?

At one level the answer has to be yes, that it is. There is consumer demand for such funds, and that is incredibly welcome and heed should be taken of it.

And no, it is not. That is because the investment community is conning people into thinking there are ESG options when it is not at all clear that right now this opportunity does exist, precisely because there is no data to prove that choice can be made on this

basis.

We need to put that right.

[Sustainable cost accounting](#) is a solution to that.