Does regulatory oversight discipline ESG funds to walk the talk? ☆

Abstract: Investors and regulators are concerned that investment funds use the ESG-investing label to attract investment flows without making real ESG-oriented investments. Exploiting the launch of the SEC's Climate and ESG Task Force (the Task Force hereafter), we investigate whether securities regulators' oversight disciplines the funds to "walk the talk." We show that ESG-labeled funds exhibit an improvement in fund-level ESG performance after the launch of the Task Force. Such changes are more pronounced among ESG funds located closer to the SEC and those whose prospectuses have a greater emphasis on ESG issues. Further analyses reveal that ESG funds claiming negative (positive) screening strategies are more likely to drop (initiate) investments in stocks as claimed in their prospectuses; those claiming ESG integration strategies reduce their investments in firms with negative ESG incidents; those claiming active ownership strategies are more likely to vote to support proposals advocating greater transparency in ESG issues. Collectively, our results suggest the effectiveness of regulatory oversight in disciplining ESG funds to "walk the ESG talk".

Keywords: ESG funds; SEC oversight; Enforcement actions; ESG disclosure; ESG compliance; Walk the talk

1. Introduction

Investors have a growing appetite for ESG-oriented investment products. According to a recent Bloomberg report, between 2016 and 2020, ESG assets under management (AUM) grew by 12% per year.[1] The report further predicts ESG AUM will surpass $40 trillion and account for 28.5% of the total AUM in the global market by 2030. Regulators are concerned that some investment funds use an ESG label as a marketing tool only without making real ESG-related investments (Gibson et al., 2022; Raghunandan and Rajgopal, 2022; Kim and Yoon, 2023). The SEC Commissioner Hester M. Peirce famously commented that corporations and asset managers may "talk the ESG talk but not walk the ESG walk". In response to this concern, the SEC has stepped up its oversight of ESG investment and disclosure. On March 4, 2021, the SEC launched the Climate and ESG Task Force (the Task Force hereafter) within the Division of Enforcement to develop initiatives to proactively identify ESG-related misconduct. Using this launch as a shock to the SEC's oversight, we investigate whether regulatory oversight is effective in disciplining fund managers into "walking the ESG talk." While fund managers' behaviors can be policed by both private litigations and regulatory interventions, hardly any private litigations have been brought against ESG funds (Roy et al., 2022),[2] highlighting the urgency and importance of studying the effectiveness of public oversight.

Conceptually, whether the SEC's oversight is effective in disciplining funds is unclear. On the one hand, the establishment of the Task Force is a strong signal that regulators are concerned about the consistency between the ESG label and the actual investment choices. Facing closer scrutiny and potential enforcement actions, investment funds have incentives to align their investment with the stated ESG focus. On the other hand, arguments can also be

[1] https://www.bloomberg.com/professional/insights/sustainable-finance/esg-aum-set-to-top-40-trillion-by-2030-anchor-capital-markets/
[2] See the post "Litigation Risks Posed by "Greenwashing" Claims for ESG Funds" on Harvard Law School Forum on Corporate Governance, on April 25, 2022.

made against the effectiveness of the Task Force in disciplining the asset-management industry. First, consensus is lacking regarding what makes a high-ESG firm (even professional ESG raters disagree on the ESG performance of the same firm), which provides leeway for fund managers to defend their investment decisions and increases the difficulty of identifying and punishing wrong-doers (Berg et al., 2022; Chatterji et al., 2016). Second, prior studies show the SEC faces various constraints (Thomsen, 2009; Kedia and Rajgopal, 2011), and whether the constraints will handicap the SEC's enforcement abilities over ESG investing is unclear. The conceptual ambiguity necessitates empirical analysis.

Our hypothesis is as follows. If regulatory oversight is effective, we expect that funds claiming to be ESG-oriented (ESG funds) are more likely to align their investment with their ESG claims, that is, to "walk the ESG talk," after the launch of the Task Force, leading to improved portfolio-level ESG performance.

In our empirical test, we use non-ESG funds as a control group and employ a difference-in-differences (DiD) research design. To ensure comparability between ESG funds and non-ESG funds, we restrict the sample to funds managed by investment companies that operate both ESG and non-ESG funds in the same year, following Raghunandan and Rajgopal (2022). We use the number of negative ESG incidents obtained from RepRisk to measure each portfolio firm's ESG performance and aggregate the portfolio firm-level ESG performance to the fund-quarter level by computing a value-weighted sum, with the weights based on the market value of the investment in each portfolio firm.

We choose ESG incidents instead of ESG ratings to capture ESG performance for the following reasons. First, compared with ESG ratings, incidents reported in RepRisk are a more objective measure of ESG performance, which is free from the subjective biases of rating agencies. Second, the ESG incidents in RepRisk are recorded at a daily level, allowing us to track the fund-level ESG performance on a timely basis. In contrast, ESG ratings tend to be sticky and do not change frequently. Third, Raghunandan and Rajgopal (2022) show ESG ratings are correlated with the quantity of voluntary ESG-related disclosures but not with firms' actual compliance or carbon emission levels, casting doubt on the ability of ESG ratings to reflect firms' actual ESG performance.

We obtain information about funds from the CRSP Survivor-Bias-Free US Mutual Fund Database. Our final sample consists of 3,180 fund-quarter observations from 305 unique ESG-labeled mutual funds (i.e., ESG funds) and 18,707 fund-quarter observations from 1,829 unique non-ESG-labeled mutual funds (i.e., non-ESG funds) between 2019 and 2022. These funds belong to 155 unique investment companies. We find that relative to non-ESG funds, ESG funds experience a significant decrease in the number of negative ESG incidents in their portfolio firms following the establishment of the Task Force, suggesting regulatory oversight induces ESG funds to tilt toward high-ESG firms. In terms of economic significance, the decrease translates into an average 7% (9%) decline in all negative (severe) ESG incidents at the fund-quarter level. Further dynamic analyses uncover evidence supporting the parallel-trends assumption. In sum, our results support the notion that the SEC's oversight is effective in disciplining ESG-labeled funds to "walk the ESG talk".

We conduct several robustness checks. We first test whether our results are robust to three alternative ways to construct the fund-level ESG performance. The first is constructed by using portfolio firms' negative ESG incidents in the previous quarter, because fund managers may not have instant access to firms' current ESG performance and may have to rely on their past ESG performance in making their ESG investment choices. Our inference remains unchanged. Our results are also robust to equally weighting firms' ESG incidents in constructing fund-level ESG performance, alleviating the concern that our results are driven by the greater stock market punishment for firms' negative ESG incidents in the post-Task Force period. Our third is constructed by using portfolio firms' greenhouse gas (GHG) emissions and we find that ESG funds exhibit a decrease in the fund-level GHG emissions after the launch of the Task Force. After checking alternative measures of ESG performance, we investigate whether our results are driven by funds' window-dressing behavior, that is, whether fund managers buy high-ESG firms and sell low-ESG firms at the end of the quarter to show ostensibly a strong focus on ESG. To detect window-dressing, Agarwal et al. (2014) advocate the computation of the backward holding return gap, that is, the difference between the actual return and the hypothetical return, assuming the quarter-end portfolio remains intact for the whole quarter. Our results based on the approach suggest our main finding is not due to increased window dressing in the post-launch period.

We next develop two cross-sectional predictions, which not only are interesting by themselves but also lend credence to our main finding. First, Kedia and Rajgopal (2011) show the SEC is constrained in its resources, and firms closer to the SEC's headquarters are monitored to a greater extent. If, indeed, our main finding is due to funds yielding to the perceived heightened monitoring of the SEC, we expect it to be more pronounced for ESG funds located closer to the SEC's headquarters. Second, ESG funds differ in their emphasis on ESG issues. We expect that regulatory scrutiny has a more pronounced effect on ESG funds whose prospectuses have more ESG claims in their investment strategies because these funds face higher risks of being detected as not walking the talk. Our empirical results lend support to both predictions, strengthening our inference about the SEC regulatory oversight.

While an improvement in ESG performance of portfolio firms is evidence of ESG funds walking the talk, a potential criticism is that ESG funds talk in different ways, and our main finding fails to consider the intricacies. To address this concern, we manually read ESG funds' prospectuses just before the launch of the Task Force and assign them into four categories based on their "talk", i.e., the stated ESG investment strategies in their prospectuses: negative screening, positive screening, ESG integration, and active ownership. Negative (positive) screening aims to exclude (include) stocks with undesirable/desirable profiles in the investment portfolio; ESG integration embeds ESG considerations in the fundamental analysis and valuation models; and active ownership uses shareholder voting power or engagement to encourage portfolio firms to pursue ESG opportunities. These strategies are non-mutually exclusive and an ESG fund can adopt one or any combination of them. Our results reveal that after the launch of the Task Force, ESG funds claiming negative screening strategies are more likely to divest undesirable stocks as identified in their prospectuses, such as fossil fuel stocks and stocks with negative ESG incidents; those claiming positive screening strategies are more likely to initiate their investments in stocks deemed desirable by their prospectuses, such as stocks with outstanding ESG performances; those claiming ESG integration strategies reduce their investment weights in firms with poor ESG performance to a greater extent; and those claiming active ownership strategies are more likely to vote for environmental and social proposals, especially for those advocating greater ESG transparency. These results provide granular evidence that ESG funds are more likely to “walk the talk” after the launch of the Task Force.

We next investigate the consequences of ESG funds walking the ESG talk after the launch of the Task Force. We focus on two issues that investors and fund managers care most about regarding investment funds: fund returns and fund flows. We find no significant difference in the changes in fund returns between ESG funds and non-ESG funds after the launch of the Task Force. When we further analyze ESG funds with a varying extent of improvement in ESG performance, we find that fund returns drop (do not change) for ESG funds with an above-median (below-median) improvement in ESG performance, and the difference in the fund returns between ESG funds with a below-median and above-median improvement in ESG performance is statistically significant. To the extent that the funds put more weight on high-ESG stocks, this finding is consistent with the notion that high-ESG stocks have low risk and thus low future returns. Turning to fund flows, we find ESG funds in general experience a greater increase in fund flows, consistent with investors' growing appetite for ESG-oriented funds. Our further analysis reveals that the increase in fund flows is not significant for ESG funds with an above-median improvement in ESG performance, whereas it is significant for ESG funds with a below-median improvement. Because the former ESG funds experience a decline in fund returns while the latter do not, our finding implies investors consider both the ESG orientation and the expected returns when making investment decisions.

Our study contributes to the literature on ESG investing. Despite the popularity of ESG investing, regulators and investors have expressed concerns about ESG funds' not walking the ESG talk. Prior studies also provide empirical evidence that back up these concerns. For example, Raghunandan and Rajgopal (2022) show that ESG mutual funds hold portfolio firms with worse compliance records with labor and environmental laws and firms with higher carbon emissions per unit of revenue. Kim and Yoon (2023) find no evidence that US mutual funds experienced an increase in fund-level ESG scores after signing the United Nations Principles for Responsible Investment (PRI). We add to this line of literature by showing evidence that regulatory oversight is effective in disciplining ESG funds.

Our paper is related to but distinct from Dai et al. (2025) and Miller et al. (2025). While all three papers are related to financial firms' ESG performance, we differ from the two papers in the following two important dimensions. First, they study the effect of a disclosure regulation while we focus on the influence of regulatory oversight; second, they examine financial firms' ESG performance (Dai et al. 2025) or their ESG investments (Miller et al. 2025), while we analyze whether funds "walk the ESG talk".

We also contribute to the literature on the effectiveness of the SEC's oversight. Prior studies primarily focus on the SEC's oversight on public firms' compliance with GAAP in their financial reports (e.g., Kedia and Rajgopal, 2011; Correia, 2014; DeHaan et al., 2015; Bozanic, Dietrich, and Johnson, 2017; Heese, Khan and Ramanna, 2017; Hills et al., 2021; Do and Zhang, 2022; Nam and Thompson, 2023). We add to this line of literature by highlighting the SEC's role in disciplining investment funds to walk the ESG talk, which has received little academic attention. Unlike compliance with GAAP, where a relatively bright line exists, it is challenging for the SEC to assess whether funds genuinely adhere to their disclosed ESG investment strategies, given that investment funds vary significantly in their ESG investment strategies, and no consensus exists on what makes a high-ESG firm. We therefore provide evidence on the efficacy of the SEC on a different subject group (i.e., investment funds) and from an important and novel perspective (i.e., walk the ESG talk).

The rest of the paper is organized as follows. Section 2 discusses the background behind the launch of the Task Force. Section 3 discusses our data, measures, and sample. Section 4 presents the research design and discusses the results. Finally, Section 5 concludes.

2. Institutional Background

The U.S. government's stance regarding climate change and ESG regulations has been vacillating along party lines.[3] Under the Obama administration, in February 2010, the SEC issued interpretive guidance regarding disclosures related to climate change, which reminded companies of their obligations under existing federal securities laws and regulations to consider climate change in their risk assessments and disclosures. After President Biden was elected in 2021, the SEC initiated a wave of regulatory and enforcement actions relating to ESG issues.

On March 4, 2021, the SEC created a Climate and ESG Enforcement Task Force within the Division of Enforcement under then-Acting SEC Chair Allison Lee to "develop initiatives to proactively identify ESG-related misconduct." The Task Force included 22 members from the SEC's headquarters, regional offices, and Enforcement specialized units and was led by

[3] Liberals, represented by the Democratic party, think ESG factors are important in investment and business decisions. Conservatives, represented by the Republican party, think ESG is a harmful distraction, presumably because corporate managers should maximize profits, and also ESG and climate disclosure impose regulatory burdens on businesses.

Kelly L. Gibson, Acting Deputy Director of Enforcement. The Task Force would "analyze disclosure and compliance issues relating to investment advisers' and funds' ESG strategies" through the use of data analysis, tips, referrals, and whistleblower complaints. According to Gibson, "Proactively addressing emerging disclosure gaps that threaten investors and the market has always been core to the SEC's mission."

On April 9, 2021, the SEC's Division of Examinations issued a risk alert regarding its review of ESG investing.[4] It acknowledged the increase in ESG-related investment products in recent years and identified staff observations of deficiencies in aligning the actual investment process with the stated social missions. The following concerns were raised: portfolio management practices inconsistent with disclosures about ESG approaches, inadequate controls to ensure ESG-related disclosures aligned with the actual practice, proxy voting deviating from the stated objectives, potentially misleading claims regarding ESG approaches, and lack of controls in implementing the ESG-related investing guidelines. This risk alert could be considered a warning shot to the investment community before the SEC's disciplinary actions.

On May 23, 2022, the SEC announced the outcome of its first enforcement action on ESG investing, which was against BNY Mellon Investment Advisors for misstatements and omissions concerning ESG considerations. The SEC claimed BNY Mellon failed to perform the ESG quality review, which was disclosed as part of its investment selection process for certain mutual funds.[5] On November 22, 2022, the SEC charged Goldman Sachs for failing to follow its policies and procedures involving ESG Investments. Goldman Sachs's asset-management arm agreed to pay $4 million to settle this case.[6] These enforcement actions

[4] See https://www.sec.gov/files/esg-risk-alert.pdf
[5] See https://www.sec.gov/newsroom/press-releases/2022-86
[6] See https://www.sec.gov/news/press-release/2022-209

suggest the Task Force was not toothless.[7] Although the SEC discreetly disbanded the Task Force in September 2024, the alignment between funds' investments with their ESG claims in the asset-management industry continues to draw attention from the SEC.[8]

In sum, the launch of the Task Force marks the start of regulatory oversight on ESG investment and disclosure issues, a dramatic departure from prior hands-off approach by the SEC.

3. Data and Sample

In this section, we describe the sample, data sources, and the construction of the key variables used in the empirical analysis. We begin by obtaining a list of U.S. domestic equity mutual funds from the CRSP Survivorship Bias-free Mutual Fund Database, following Kacperczyk et al. (2008). Because our predictions pertain to the effect of active funds, we further exclude index funds (index_fund_flag='D') and exchange-traded funds (ETFs) (et_flag='F') that track or mimic an index. For the remaining funds, we classify them into ESG funds and non-ESG funds. The detailed classification steps are described in the following subsection.

3.1 ESG Fund Identification and Sample Construction

We use the following procedure to identify ESG funds. First, we manually read the fund names from CRSP dataset to identify the fund with ESG-related keywords in its name. The most frequent keywords include "sustain," "social," "ESG," "responsible," "clean," "impact,"

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[7] In September 2024, Bloomberg reported that the SEC disbanded the Task Force. (See "SEC Abandons ESG Enforcement Group Amid Broader Backlash," Bloomberg Law (Sept. 12, 2024). According to the article, the SEC issued a statement on the elimination of the ESG Task Force, noting its view that "[t]he strategy has been effective, and the expertise developed by the task force now resides across the Division", suggesting that the Division would continue its oversight on ESG issues.

[8] See https://www.sec.gov/newsroom/speeches-statements/uyeda-conference-financial-market-regulation-051525?utm_medium=email&utm_source=govdelivery

"SRI", "environment", "green," and "women".[9] We focus on fund names because they provide a salient signal to investors and the SEC is concerned about misleading fund names.[10] Within the remaining funds, we follow Heath et al. (2023) and identify a mutual fund as an ESG fund if it labels itself as a "socially responsible" or "SRI" fund on Bloomberg terminal, is listed in the Morningstar Socially Conscious dataset, or is a member of the US Sustainable Investment Forum (US SIF).[11] Altogether, we identify 309 unique ESG-labeled funds and treat the remaining mutual funds as non-ESG funds.

We next construct a sample that consists of a fund-year-quarter panel of our identified ESG funds and non-ESG funds with available fund-level controls. This sample period spans from 2019Q4 to 2022Q3 (inclusive). Because some ESG funds might voluntarily choose to become non-ESG funds to avoid oversight by the Task Force, we restrict the testing sample to funds whose (non-)ESG labels remain unchanged throughout our sample period.[12] To ensure comparability between ESG funds and non-ESG funds, we further limit the sample to funds managed by investment companies that operate both ESG and non-ESG funds in the same year, following Raghunandan and Rajgopal (2022). Our final sample consists of 3,180 fund-quarter observations from 305 unique ESG mutual funds, and 18,707 fund-quarter observations from 1,829 unique non-ESG mutual funds, belonging to a total of 155 unique investment companies.

[9] He et al. (2023) identify E&S (Environment and Social) funds if the funds have one of the following E&S-related words ("environment," "environmentally," "climate," "green," "social," "socially," "responsible") in their names. Our results are robust if we follow the approach of He et al. (2023) in identifying ESG funds.

[10] In September 2023, the SEC adopted amendments to the Names Rule (Rule 35d-1) to strengthen investor protections by ensuring that a fund's name accurately reflects its investments. The changes expand the rule's scope beyond geographic or industry terms to also cover names suggesting particular investment characteristics, such as "growth," "value," or ESG themes. Funds with such names must now invest at least 80% of their assets in accordance with the name and review compliance quarterly, with a 90-day cure period if they fall short. The amendments also require funds to define terms in plain language, enhance notice requirements for name or policy changes, report compliance details on Form N-PORT, and maintain additional records. Since the amendment potentially explains our finding, we limit our sample period so that it ends prior to the amendment.

[11] Morningstar Socially Conscious dataset indicates if a fund identifies itself as selectively investing based on certain E&S principles.

[12] Our sample contains four identified ESG funds switching to non-ESG funds, and all switches happened during the post-launch periods. Such ESG to non-ESG switching cases account for about 1.3 % of total ESG funds, which is much higher than the fraction of non-ESG to ESG switching cases during the pre-launch period (0.1%) and post-launch period (0.4%).

3.2 Fund-Level ESG Performance Measure

To capture the extent to which mutual funds tilt their investments toward portfolio firms with good ESG performance, we construct fund-level ESG performance measures. In particular, we retrieve each mutual fund's quarterly portfolio holdings from the CRSP Survivorship Bias-Free US Mutual Fund Database and then obtain information on negative ESG incidents for every portfolio firm from RepRisk. For each fund-quarter, we construct a value-weighted fund-level ESG performance measure as follows:

$$ESG\_Incident\_w_{i,q} = \sum_s w_{i,s,q} \times \#ESG\_Incident_{s,q} \quad (1)$$

where $w_{i,s,q}$ is the investment weight of portfolio firm *s* for fund *i* at the end of quarter *q*, and $\#ESG\_Incident_{s,q}$ is the number of negative ESG incidents for portfolio firm *s* during quarter q. In short, $ESG\_Incident\_w_{i,q}$ represents the weighted sum of the number of negative ESG incidents from portfolio firms of a given fund during quarter *q*. To the extent that some ESG incidents are trivial and lack media exposure, we construct an alternative measure *ESG_Incident_w(H)* by including only the ESG incidents with "high" severity or media reach (Severity=3 or Reach=3 in RepRisk) in the above equation. For both measures, a lower value indicates better fund-level ESG performance.

To validate our fund-level ESG performance measures, we analyze the performance of ESG funds that belong to the two investment companies enforced by the SEC during periods when they violated their public ESG commitments or policies in their investment decisions (referred to as the violation period). Specifically, we examine the changes in our fund-level ESG performance measures for enforced ESG funds from the pre-violation periods to the violation periods (2017Q2-2021Q3),[13] using non-enforced ESG funds as a control group.

[13] For this test, we use fund-quarter panel data, with a balanced time zone for the pre-violation and post-violation periods.

Appendix B shows the timeline of the two enforcement actions. If our ESG performance measures are valid, we expect to observe poorer fund-level ESG performance for enforced funds during the violation periods. The results presented in columns (1) and (2), Appendix C, align with our expectations, indicating that our fund-level ESG performance measures are valid and capable of capturing funds' ESG performance.

3.3 Control Variables

We control for a variety of fund-level factors in our analyses, following Huynh et al. (2025). In particular, we control for fund age (*Ln(Fund Age)*), computed as the natural logarithm of the fund's age measured in months, and fund size (*Ln(Fund Size)*), computed as the natural logarithm of the fund's total net assets. We also control for fund performance, measured by fund-level quarterly net return (*Fund Return*) and fund flow over the quarter (*Fund Flow*). Finally, we control for funds' expense ratio (*Expense Ratio*) and turnover ratio (*Turnover Ratio*). Appendix A provides the variable definitions in detail. To ensure our results are not driven by extreme values, all continuous variables are winsorized at the 1st and 99th percentiles of the sample, and standard errors are clustered by fund.

4. Empirical Results

4.1. The Effect of the Task Force Launch on Fund-Level ESG Performance

Sample description

Table 1 presents the descriptive statistics of fund-level ESG performance measures and the control variables. ESG (non-ESG) funds on average have 4.750 (4.734) negative ESG incidents and 1.675 (1.627) negative ESG incidents with high severity or media reach from their portfolio firms. The quarterly return has a mean value of 0.010 and 0.011 for ESG and non-ESG funds, respectively; the quarterly fund flow has a mean value of 0.047 and 0.022 for

ESG and non-ESG funds, respectively. On average, the natural logarithm of fund age (in months) is 5.017 and the natural logarithm of fund size is 6.101.

Among the 305 identified ESG funds in our final sample, we manually classify them into four groups based on the following investment strategies: negative screening, positive screening, ESG integration, and active ownership. We identify 116 funds adopting a negative screening strategy. Among them, 99, 68, and 64 funds claim to screen out sin stocks (including tobacco, alcohol, gambling, firearms, adult entertainment stocks), fossil fuel stocks, and stocks that fail to meet the requirements of ESG-related standards/rules (e.g., environmental laws, UN Global Compact, or biblical principles), respectively. For the positive screening strategy, we identify 25 funds that specifically claim to select stocks with superior ESG performance based on third-party ESG ratings such as MSCI. We also identify 149 ESG funds using ESG integration strategy. ESG integration is a strategy that incorporates ESG performance in investment decisions. Different from positive and negative screening, ESG integration strategy does not have a specific set of value rules for stock picking. Instead, its investment decision incorporates the evaluation of stocks' ESG risks and opportunities alongside conventional financial factors, although the evaluation approaches are usually proprietary and undisclosed to the public. Finally, we identify 43 funds that claim to employ an active ownership strategy as part of their ESG approach. A fund falls in this category if it commits to working with investee firms' management or exercising voting rights to improve firms' ESG performance, especially in the area of ESG transparency.

[Insert Table 1 here]

Main finding

We use a balanced sample period, with five quarters before and five quarters after the Task Force launch, namely, 2019Q4 to 2022Q1, to test the effect of the Task Force launch.[14] Specifically, we apply a difference-in-differences (DiD) research design to estimate the following regression model:

$$ESG\_Performance_{i,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + c' Fund\ Control_{i,q-1} + Fund\ FE + Time\ FE + \varepsilon_{i,q} \quad (2)$$

where i and q denote the fund and quarter, respectively. The dependent variable *ESG_Performance* is represented by either *ESG_Incident_w* or *ESG_Incident_w(H)*, which capture fund i's value-weighted fund-level ESG performance over quarter q. *ESGfund* is an indicator that equals 1 if fund i is consistently labeled as an ESG fund around the launch of the Task Force, and 0 if it is consistently identified as a non-ESG fund. *TaskForce* is an indicator that equals 1 for quarters ending on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). The coefficient on the interaction term *ESGfund* × *TaskForce* (β_1) captures the change in the fund-level ESG performance of ESG funds relative to non-ESG funds around the launch of the Task Force. A negative β_1 indicates better fund-level ESG performance, suggesting that ESG funds tilt their investment toward portfolio firms with better ESG performance (i.e., fewer ESG incidents) following the launch of the Task Force. To mitigate the influence of the differential fund characteristics between ESG and non-ESG funds, we apply an entropy-balancing approach to the covariates between fund-quarters of ESG funds and those of non-ESG funds. We then estimate Eq. (2) on the entropy-balanced sample using a Poisson model with fund and year-

[14] We end the sample period at 2022Q1 to isolate the effect of the Task Force launch from the effect of subsequent enforcement actions on ESG issues, because the SEC announced the first ESG-related enforcement against mutual funds during 2022 Q2. A relatively short sample period also helps mitigate the impact of other confounding events such as the climate-related disclosure rule mandated by the SEC in 2024 and the Names Rule in 2023. However, we are aware that a short sample period with five post-event quarters may underestimate the effect of the Task Force launch. For robustness, in an untabulated test, we re-run Eq. (2) for an extended period from 2019Q4 to 2023Q1 (inclusive) and find the main inferences still hold. The inferences also hold when we exclude funds managed by the investment companies that are enforced by the SEC.

quarter fixed effects. The fund and year-quarter fixed effects are included to mitigate the impact of any fund-invariant and time-specific omitted variables. The fund-level control variables are measured in quarter *q-1*, and all other variables in Eq. (2) are measured in quarter *q*.

Table 2 reports the results of estimating Eq. (2) for the effect of the launch of the Task Force on fund-level ESG performance. We first report the results with fund and year-quarter fixed effects but without any fund-level control. We do so to prevent bad controls from affecting our ability to make causal inferences (Gormley and Matsa 2014). The coefficient on $ESGfund \times TaskForce$ is negative and significant for both fund-level ESG performance measures, that is, *ESG_Incident_w* in column (1) and *ESG_Incident_w(H)* in column (3). The negative coefficients remain significant when we include the fund-level controls. As shown in columns (2) and (4), the coefficients on *ESGfund* × *TaskForce* are -0.069 for *ESG_Incident_w*, and -0.093 for *ESG_Incident_w(H)*, with z-statistics of -2.59 and -2.53, respectively. The robust negative coefficients on $ESGfund \times TaskForce$ suggest that after the launch of the Task Force, ESG funds tilt their investments more toward portfolio firms with fewer negative ESG incidents than non-ESG funds, resulting in improved fund-level ESG performance. In economic terms, these negative coefficients translate into a decrease of 6.67% (1-$\exp^{-.069}$) in the number of negative ESG incidents, and 8.88% (1-$\exp^{-.093}$) in the number of negative ESG incidents with high media reach or severity for ESG funds relative to those of non-ESG funds in the post-launch period, respectively.

[Insert Table 2 here]

We note that the validity of our research design hinges on the parallel-trends assumption. That is, we assume that the fund-level ESG performance of ESG and non-ESG funds would not have changed differently absent the launch of the Task Force. To provide support for this assumption, we re-estimate Eq. (2) by replacing *TaskForce* with six indicator variables capturing each quarter before and after the launch of the Task Force and interacting them with

ESGfund. Figure 1 plots the dynamic coefficient estimates and confidence intervals of the interaction terms, using quarters earlier than two quarters before the launch of the Task Force (<-2) as the benchmark and *ESG_Incident_w* as the dependent variable. We find the pre-launch estimates are statistically insignificant, indicating the difference between ESG and non-ESG funds does not change in the pre-launch period, consistent with the parallel-trends assumption. In contrast, we find the coefficient estimates are significantly negative starting from the launch quarter of the Task Force, indicating ESG funds improve their ESG performance immediately after the Task Force launch.

[Insert Figure 1 here]

Overall, the results in Table 2, along with the trend analysis in Figure 1, suggest that following the launch of the Task Force, ESG funds proactively respond to the SEC's increased oversight on ESG issues by tilting their investments more toward portfolio firms with better ESG performance.

Robustness tests

We conduct five sets of robustness tests on the baseline results described above. First, to the extent that fund managers may not have instant access to firms' current ESG performance and rely on historical ESG performance in making investment decisions, we test whether our finding is robust to an alternative historical-data based ESG performance measure. Specifically, we reconstruct the value-weighted ESG performance at the fund level by replacing the number of negative ESG incidents of each portfolio firm in the concurrent quarter ($\#ESG\_Incident_{s,q}$) in Eq. (1) with that from the previous quarter. Table 3, Panel A, column (1) reports the results. Our baseline results remain robust to the alternative measure.

Second, we test whether our results are robust to an equal-weighted fund-level ESG performance measure. Our primary measure is value-weighted. While our measure considers the weight of a stock in the fund's portfolio, it raises a concern that our main finding can be mechanical: due to the increasing ESG awareness, portfolio firms with negative ESG incidents may experience more negative stock returns after the launch of the Task Force, resulting in a mechanical decrease (an improvement) in the value-weighted fund-level ESG incidents (ESG performance). To alleviate this concern, we construct an equal-weighted fund-level ESG performance measure based on portfolio firms' ESG incidents (*ESG_Incident_e*), and test its change around the launch of the Task Force. As shown in column (2) of Panel A, we continue to observe an improvement in the equal-weighted ESG performance measure (i.e., a decrease in *ESG_Incident_e*) for ESG funds relative to non-ESG funds in the post-Task Force period.[15]

Third, we use greenhouse gas (GHG) emission data from S&P Trucost database as a proxy for portfolio firms' ESG performance and construct an alternative measure of fund-level ESG performance: the value-weighted GHG emission (GHG_w_{iq}), defined as the natural logarithm of the weighted sum of portfolio firms' total carbon emissions of all three scopes (i.e., Carbon Scopes 1, 2, and 3) in year *y*, weighted by the investment weight of a given firm in the fund *i*'s portfolio at the end of quarter *q*. This alternative measure alleviates the concern that our primary measure captures only the negative aspects of a firm's ESG performance. We replace the dependent in Eq. (1) with *GHG_w* and re-run the regression. As shown in column (3) of Panel A, the coefficient on $ESGfund \times TaskForce$ is negative and significant, indicating that ESG funds tilt their investment towards portfolio firms with lower GHG emissions after the launch of the Task Force. [16] The result suggests that our inferences are robust to using a continuous measure of ESG performance.

Additionally, we perform tests to address concerns that the observed decrease in the weighted sum of negative ESG incidents at the fund level is driven by fund managers' window-

[15] The change in the equal-weighted measure reflects only the lower bound of the improvement in funds' ESG performance because it captures only the enter and exit decisions but not weight adjustment of funds.
[16] Because GHG emission data is not available for all portfolio firms, when constructing the fund-level carbon emission measure, we restrict to fund-quarters with at least 10 portfolio firms with non-missing GHG emission data. Thus, the sample size in column (4) is smaller than that in remaining columns.

dressing behavior—such as selling poor ESG performers or buying good ones at quarter-end to create the illusion of being pro-ESG—rather than genuine commitments to ESG principles. To address this concern, we first conduct a cross-sectional test by dividing the independent variable *ESGfund* in Eq. (2) into two subgroups, namely, *ESGfund_HighWD* and *ESGfund_LowWD*, based on a measure of fund window dressing—the backward holding return gap, following Agarwal et al. (2014). The backward holding return gap is an absolute measure that compares the fund's actual quarterly return with its hypothetical quarterly return, assuming the quarter-end reported holdings are held throughout the quarter. A higher value indicates a greater level of window dressing. *ESGfund_HighWD* (or *ESGfund_LowWD*) equals 1 if an ESG fund's quarterly return gap is above (or below) the sample median, and 0 otherwise. If the window-dressing hypothesis holds, we would expect to see significantly stronger results for the subgroup with high levels of window dressing (i.e., *ESGfund_HighWD* = 1). However, our results in columns (1) and (2) of Panel B show no significant difference between the *ESGfund_HighWD* and *ESGfund_LowWD* subgroups. In addition to the cross-sectional test, we examine the robustness of our baseline results by re-running Eq. (2) using a sample that excludes fund-quarters with the backward holding return gaps in the top quartile. As shown in columns (3) and (4), our baseline results remain consistent, albeit with slightly smaller economic magnitudes.

[Insert Table 3 here]

4.2 Cross-Sectional Heterogeneity

After documenting the effect of the launch of the Task Force on ESG funds' fund-level ESG performance, we perform two cross-sectional tests to strengthen our inferences. We first examine the cross-sectional variation in the SEC's oversight strength, using geographic proximity to the SEC headquarters as a proxy. Prior studies have found firms located closer to the SEC are subject to greater oversight and enforcement by the SEC, due to information advantages and lower travel costs (e.g., Kedia and Rajgopal, 2011; Kubick and Lockhart, 2016). We therefore expect the effect of the Task Force launch to be stronger for funds located near the SEC headquarters, as these funds face higher perceived SEC oversight and enforcement risk.[17] We compute the geodesic distance between a fund's location and the SEC headquarters (Washington, DC) and partition ESG funds into two subgroups: those close to the SEC (*ESGfund_Near*) and those far from it (*ESGfund_Far*). In particular, *ESGfund_Near* (*ESGfund_Far*) is an indicator equal to 1 if the ESG fund is located within (beyond) 200 miles of the SEC headquarters, and 0 otherwise. We replace the interaction $ESGfund \times TaskForce$ with $ESGfund\_Near \times TaskForce$ and $ESGfund\_Far \times TaskForce$ and re-estimate Eq. (2). Panel A of Table 4 reports the regression results. For both measures of fund-level ESG performance, the coefficients on $ESGfund\_Near \times TaskForce$ and $ESGfund\_Far \times TaskForce$ are significantly negative, but the magnitude of $ESGfund\_Near \times TaskForce$ is much larger. The results suggest that the effects of the Task Force launch on ESG investment are stronger among ESG funds that are subject to greater perceived SEC scrutiny, alleviating the concern that our results are due to events concurrent to the launch of the Task Force.

We next examine cross-sectional variation in funds' stated ESG emphasis. The Task Force intends to target investment funds whose investment decisions do not align with the claimed procedures, policies, and strategies. We expect that ESG funds claiming a greater ESG emphasis face more intense scrutiny. Consequently, these ESG funds have more incentives to improve their ESG investment practices. To test this prediction, for each fund, we measure its ESG focus based on ESG ratio, which is calculated as the number of sentences including ESG-related keywords divided by the total number of sentences in the latest prospectus preceding

[17] We obtain funds' office addresses from the CRSP Mutual Funds Database and assume the office locations are the primary place where funds make investment decisions (Alok et al., 2020).

the launch of the Task Force. We then divide the ESG funds into two subgroups: those with a high ESG ratio and those with a low ESG ratio. *ESGfund_HighESGRatio* (*ESGfund_LowESGRatio*) equals 1 if an ESG fund's ESG ratio is above (below) the sample median of ESG funds, and 0 otherwise. Panel B of Table 4 reports the regression estimates on the interaction terms $ESGfund\_HighESGRatio \times TaskForce$ and $ESGfund\_LowESGRatio \times TaskForce$. We find the coefficient on $ESGfund\_HighESGRatio \times TaskForce$ is significantly negative, whereas the coefficient on $ESGfund\_LowESGRatio \times TaskForce$ is insignificant. The difference between the two coefficients is significant at the 1% level. These results are consistent with our prediction that funds with a greater ESG emphasis respond more proactively to the launch of the Task Force.

In sum, our findings suggest that following the launch of the Task Force, ESG funds proactively respond to the heightened SEC oversight on ESG issues by tilting their investment more toward portfolio firms with good ESG performance ("Walk the ESG Talk"). Such response is stronger among ESG funds facing higher SEC oversight strength (e.g., located closer to the SEC headquarters and with a greater ESG focus).

[Insert Table 4 here]

4.3 Evidence Based on ESG Investment Strategies

This section aims to provide further evidence that the launch of the Task Force disciplines ESG funds to walk the talk. Specifically, we examine subsets of ESG funds based on their claimed ESG strategies and test whether their post-launch investment decisions are more aligned with these claimed strategies, using non-ESG funds as a control group.

Negative screening

This subsection examines ESG funds with negative screening investment strategies. We test whether after the launch of the Task Force, ESG funds committed to excluding sin stocks, fossil fuels stocks, and stocks violating ESG rules/standards are more likely to exclude these stocks from their investment portfolios, respectively. Specifically, we estimate the following regression model at the fund-portfolio firm-quarter level for each screening-out criterion:

$$Exit_{i,s,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + \beta_2 NegScreen\_D_{s,q-1} \times ESGfund_i \times TaskForce_q + \beta_3 NegScreen\_D_{s,q-1} + \beta_4 NegScreen\_D_{s,q-1} \times ESGfund_i + \beta_5 NegScreen\_D_{s,q-1} \times TaskForce_q + C_1' Firm\ Control_{s,q-1} + C_2' Fund\ Control_{i,q-1} + Fund\ FEs + Time\ FEs + \varepsilon_{i,s,q} \qquad (3)$$

where *i*, *s*, and *q* denote fund, portfolio firm, and quarter, respectively. The dependent variable *Exit* equals 1 if portfolio firm *s* is a newly exited stock in fund *i*'s portfolio in quarter *q*, and 0 otherwise. *ESGfund* is an indicator variable, which equals 1 if fund *i* claims adopting the screening-out criterion being examined. *NegScreen_D* is an indicator for portfolio stocks that meet the negative screening ESG criteria and therefore need to be screened out. Based on the criterion an ESG fund adopts, *NegScreen_D* can be an indicator for sin stocks (*Sin_D*), fossil fuel stocks (*Fossil_D*), or stocks with ESG rule violations or negative ESG incidents (*NegIncident_D*) in quarter *q*-1. Specifically, *Sin_D* is an indicator, which equals 1 if portfolio firm s is a sin stock, i.e., it is in business related to tobacco, alcohol, entertainment, and weapons (Hong and Kacperczyk, 2009), and 0 otherwise. *Fossil_D* is an indicator, which equals 1 if portfolio firm s is in the coal or oil and gas industry (Trink et al., 2019), and 0 otherwise. *NegIncident_*D equals 1 if portfolio firm s has at least one negative ESG event in Reprisk in quarter *q*-1, and 0 otherwise. We interact *NegScreen_D* with *ESGfund* and *TaskForce* to test the impact of the Task Force launch on ESG funds' stock-exiting strategy. The fund-level control variables are the same as those in Eq. (2). Following Huynh et al. (2024), we also include a set of firm-level control variables that could affect funds' portfolio decisions: Firm size, *Ln(Firm size)*, is the natural logarithm of a firm's market value of equity; Firm leverage is computed as the sum of long-term debt and short-term debt divided by the book value of total assets; Firm ROA is income before extraordinary items divided by the book value of total assets; B/M ratio is the natural logarithm of 1 plus the book-to-market ratio, where the book-to-market ratio is the book value of total assets divided by the market value of total assets. We also control for sales growth (*Firm Growth*) and stock returns in the previous year (*Firm Return*). Finally, we include fund and year-quarter fixed effects.

Table 5 reports the OLS regression results of estimating Eq. (3). Columns (1) to (3) respectively examine the criterion of excluding sin stocks, fossil fuel stocks and stocks with negative ESG incidents. The test sample in each column includes portfolio holdings of non-ESG funds and ESG funds that claim to use the specific criterion being examined. In columns (1) and (2), the coefficients on *Sin_D* and *Fossil_D* are positive and significant, indicating that funds in general are more likely to screen out sin stocks and fossil fuel stocks. Importantly, the coefficient of $Fossil\_D_{s,q-1} \times ESGfund \times TaskForce$ is significantly positive, whereas the coefficient of $Sin\_D_{s,q-1} \times ESGfund \times TaskForce$ is insignificant. These results suggest the launch of the Task Force increase the ESG funds' stock-screening-out sensitivity of fossil fuel stocks but not sin stocks. In column (3), the coefficient on the three-way interaction term $NegIncident\_D_{s,q-1} \times ESGfund \times TaskForce$ is positive and significant, indicating that ESG funds claiming to screen out stocks violating ESG rules are more likely to exit portfolio firms with negative ESG incidents after the launch of the Task Force. Overall, the results show that negative screening ESG funds are more likely to screen out stocks as claimed by their prospectuses.

[Insert Table 5 here]

Positive screening

We now turn our attention to ESG funds with positive screening strategies. Positive screening strategies call for the funds to invest in stocks with good ESG performance. To test whether the launch of the Task Force increases the likelihood of these funds to walk the talk, we run the following regression for a subsample of ESG funds that claim using third-party ESG ratings in their positive screening strategies:

$$Enter_{i,s,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + \beta_2 GoodESG\_D_{s,q-1} \times ESGfund_i \times TaskForce_q + \beta_3 GoodESG\_D_{s,q-1} + \beta_4 GoodESG\_D_{s,q-1} \times ESGfund_i + \beta_5 GoodESG\_D_{s,q-1} \times TaskForce_q + C_1' Firm\ Control_{s,q-1} + C_2' Fund\ Control_{i,q-1} + Fund\ FEs + Time\ FEs + \varepsilon_{i,s,q} \quad (4)$$

Enter equals 1 if portfolio firm *s* is a newly added stock to fund *i*'s portfolio in quarter *q*, and 0 otherwise. *ESGfund* equals 1 if the fund uses third-party ESG ratings in its positive screening strategy. *GoodESG_D* is an indicator for stocks with superior ESG performance, with two empirical proxies: *GoodESG_D1* equals 1 if the firm's industry-adjusted MSCI score is 3 or higher, and 0 otherwise; *GoodESG_D2* equals 1, if the stock's MSCI rating is BB or above, and 0 otherwise.[18] We use MSCI ratings and letter grade or score-based cut-offs to identify high-performing firms, consistent with the screening criteria claimed by the sample ESG funds.

Table 6 reports the regression results. We find the coefficients on the three-way interaction term $GoodESG\_D1_{s,q-1} \times ESGfund \times TaskForce$ and $GoodESG\_D2_{s,q-1} \times ESGfund \times TaskForce$ are positive and significant, indicating that ESG funds with positive ESG screening commitment indeed are more likely to screen in portfolio firms with superior ESG performance following the launch of the Task Force, further evidence that the SEC's oversight disciplines ESG funds to "walk their ESG talk".

[Insert Table 6 here]

[18] MSCI assigns letter-grade ESG ratings based on firms' industry-adjusted MSCI score. An industry-adjusted score of 2.875 or higher corresponds to a letter rating of BB or above. For a detailed mapping between MSCI score and letter rating, please refer to MSCI Rating Methodology (See https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology.pdf). A letter rating of BB or above indicates the firm has a leading, unexceptional, or mixed tracked record in managing significant ESG risks and opportunities relative to industry peers.

ESG integration

ESG integration investment strategies call for integrating portfolio firms' ESG performance into valuation models to determine investment choices. If the launch of the Task Force disciplines the funds using such strategies to walk the talk, we predict the funds to decrease the weight of stocks with poor ESG records to a greater extent in the post-period. We test this prediction by estimating the following model on a sample of non-ESG funds and ESG funds claiming ESG integration strategies:

$$Weight_{i,s,q}\ or\ Ln(Shares)_{i,s,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + \beta_2 \#ESG\_Incident_{s,q-1} \times ESGfund_i \times TaskForce_q + \beta_3 \#ESG\_Incident_{s,q-1} + \beta_4 \#ESG\_Incident_{s,q-1} \times ESGfund_i + \beta_5 \#ESG\_Incident_{s,q-1} \times TaskForce_q + C_1' Firm\ Control_{s,q-1} + C_2' Fund\ Control_{i,q-1} + Firm\ FEs + Fund\ FEs + Time\ FEs + \varepsilon_{i,s,q} \quad (5)$$

where the dependent variable is $Weight_{i,s,q}$ or $Ln(Shares)_{i,s,q}$. $Weight_{i,s,q}$ is the weight of portfolio firm *s* in fund *i*'s portfolio in quarter q, multiplied by 100; $Ln(Shares)_{i,s,q}$ is the natural logarithm of the number of portfolio firm s's shares held by fund *i* at the end of quarter q, adjusted for stock splits and stock dividends. $\#ESG_Incident_{s,q-1}$is the number of negative ESG events in RepRisk dataset for portfolio firm s in quarter q-1, which is a proxy for the firm's ESG performance. The set of firm-level and fund-level control variables are the same as those in Eq. (3). We control for portfolio firm, fund, and year-quarter fixed effects. To ensure the results capture funds' weight adjustment rather than screening of stocks, we exclude the newly entered or exited stocks in quarter q.

Table 7 reports the results of estimating Eq. (3). In column (1), where the dependent variable is $Weight_{i,s,q}$, the coefficient on $\#ESG\_Incident_{s,q-1}$ is significantly negative, indicating that fund managers tend to reduce the portfolio weights of firms with more negative incidents. Importantly, the coefficient on the three-way interaction $\#ESG\_Incident_{s,q-1} \times$

$ESGfund \times TaskForce$ is negative and significant at the 5% level. This result suggests that compared with non-ESG funds, ESG funds with ESG integration strategies reduce the portfolio weights of firms with poor ESG records to a greater extent after the launch of the Task Force. To ensure that the reduction in portfolio weights is not entirely driven by the decrease in stock valuation subsequent to the negative ESG incidents, we also examine the number of portfolio firm's shares held by ESG funds. Column (2) reports the results with $LnShares_{i,s,q}$ as the dependent variable. Consistent with the result in column (1), the coefficient on the three-way interaction $\#ESG\_Incident_{s,q-1} \times ESGfund \times TaskForce$ is negative and significant, suggesting that ESG funds with ESG integration strategies hold fewer shares of firms with poor ESG performance after the launch of the Task Force.

[Insert Table 7 here]

Active Ownership

Active ownership strategies call for ESG funds to engage with portfolio firms' managers and exercise voting rights to improve ESG performance and reduce ESG risk. Since engagements with managers can be private and are typically unobservable, we focus on the voting records. We obtain funds' voting records on environmental or social issues (E&S) proposals from ISS Voting Analytics Dataset and match them with non-ESG funds and the ESG funds that claim active ownership in our sample, identified from the CRSP mutual fund database. The matching process involves two steps. First, for each mutual fund, we use a fuzzy matching algorithm to match the fund name with the names in the voting records, followed by manual verification. Second, some matches may remain unsuccessful because ISS uses historical fund names to identify funds, while CRSP uses the most recent fund name. Therefore, for funds unmatched in the first step, we rely on N-CSR filings (annual and semi-annual stockholder reports) from EDGAR to obtain the funds' historical names and use the historical names to match the two datasets. We are able to obtain voting records for more than 80% of our funds through the above two steps. We estimate the following model:

$$Voting\ Support_{\ i,k,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + c' Fund\ Control_{i,q-1} + Firm - \text{Fund}\ FEs + Fund - Proposal - Year\ FEs + \varepsilon_{i,k,q} \qquad (6)$$

where *i*, *k*, and *q* denote fund, proposal, and quarter, respectively. *Voting Support* is an indicator that equals 1 if a fund votes to support the E&S proposal, and 0 otherwise. *ESGfund* is an indicator that equals 1for an ESG fund claiming active ownership, and zero for non-ESG funds. We also include portfolio firm-fund fixed effects and fund-proposal-year fixed effects. The set of fund-level control variables are the same as those in Eq. (3). The coefficient β_1 capture the difference of voting behaviours in the post-launch change between ESG funds and non-ESG funds.

We separate E&S transparency proposals and other E&S proposals. E&S transparency proposals are proposals aiming to increase the transparency of firms' E&S performance and risks. We single out E&S transparency proposals because active ownership funds have a clear mandate to obtain information on firms' ESG performance and shall express their support for such proposals. In contrast, the merits of other E&S proposals are likely determined by the funds on a case-by-case basis.

Table 8 reports the regression results. The coefficient β_1 is significantly positive when the dependent variable is *Voting Support* for all E&S proposals, suggesting that the votes of ESG funds with active ownership strategies are more supportive for E&S proposals than non-ESG funds after the launch of the Task Force. Further analysis shows that ESG funds are more likely to vote to support E&S transparency proposals (β_1 = 0.33, *t*-value=2.20 in column 2) but not for other E&S proposals, suggesting that ESG funds encourage ESG transparency to facilitate their monitoring of portfolio firms.

Taken together, the results in Tables 5-8 show ESG funds indeed carry out their claimed ESG strategies to a greater extent after the launch of the Task Force.[19]

[Insert Table 8 here]

4.4 Capital Market Consequences of "Walking the ESG Talk"

Our analyses provide robust evidence that ESG funds increasingly align their investments with their ESG commitments following the launch of the Task Force. A natural follow-up question is: what are the market consequences of "walking the ESG talk" for ESG funds? To answer this question, we examine the changes in fund flows and fund returns after the launch of the Task Force and assess their correlations with the extent of funds' improvement in "walking the ESG talk". Empirically, we estimate Eq. (2) after replacing the dependent variables with one-quarter-ahead *FundFlow* or *FundReturn* to examine whether fund flows and fund returns change after the launch of the task force. *FundFlow* is the percentage of new fund flows into the mutual fund over quarter q+1.[20] *FundReturn* is the return net of fees over quarter q+1. Next, we conduct cross-sectional tests to examine how fund flow and return vary with the post-Task Force improvement in ESG performance. In particular, we divide the independent variable *ESGfund* in Eq. (2) into two subgroups: *ESGfund_ImproveMore* and *ESGfund_ImproveLess*. *ESGfund_ImproveMore* (or *ESGfund_ImproveLess*) equals 1 if the ESG fund's post-Task Force change in its ESG performance (measured by the weighted sum of negative ESG incidents from portfolio firms) is below (or above) the sample median, and 0 otherwise.

[19] Out of the 325 ESG funds in our sample, only one ESG fund adopts all four ESG investment strategies discussed above. The results in Tables 5-8 still hold when we remove this fund. Thus, our results are not driven by funds adopting all four strategies.

[20] *FundFlow* is calculated as the fund's total net assets (TNA) at the end of quarter q+1 minus the product of the fund's TNA at the end of quarter q and the sum of 1 and the net fund returns compounded over quarter q+1, all divided by the fund's TNA the end of quarter q.

Columns (1) and (2) in Table 9 show that, on average, ESG funds do not experience significant changes in fund returns around the launch of the Task Force. However, cross-sectionally, we find ESG funds that improve their ESG performance to a greater extent (*ESGfund_ImproveMore*) after the launch of the Task Force experience a significant decrease of 0.4% in quarterly returns, whereas those with little improvement (indicated by *ESGfund_ImproveLess*) do not experience any change in fund returns. This finding is consistent with the notion that high-ESG firms have lower expected returns and funds experience lower returns when they invest more in high-ESG firms, which may explain why some fund managers choose not to "walk the ESG talk" in the first place. Columns (3) and (4) report the results of the change in fund flows around the launch of the Task Force. ESG funds attract more fund flows than non-ESG funds, consistent with the growing popularity of ESG investing among investors. Cross-sectionally, the increased fund flow for ESG funds is mainly driven by the subgroup *ESGfund_ImproveLess* rather than *ESGfund_ImproveMore*. The lower returns observed in the *ESGfund_ImproveMore* subgroup could be one reason why the subgroup becomes less attractive to investors.

[Insert Table 9 here]

5. Conclusion

We study whether the SEC's oversight is effective in disciplining ESG funds to "walk the talk" by examining the impact of the launch of the SEC's Task Force on funds' ESG performance and portfolio choices. We find that following the Task Force launch, compared to non-ESG funds, ESG-labeled funds have improved fund-level ESG performance. Our results are robust to alternative measures of ESG performance and cannot be explained by funds' window-dressing behavior. Additional cross-sectional tests reveal that the changes are more pronounced among funds located closer to the SEC's headquarters and funds with a stronger emphasis on ESG. To the extent that geographical proximity to the SEC and a claimed focus on ESG are more likely to draw the SEC's scrutiny, these cross-sectional results suggest that the post-launch changes are likely due to the SEC's oversight.

To provide granular evidence that ESG funds "walk the talk" after the launch of the Task Force, we separately examine funds claiming different ESG strategies. Our results show that ESG funds claiming negative (positive) screening strategies are more likely to drop (initiate) their investments in stocks with undesirable/desirable ESG profiles, those claiming ESG integration strategies reduce their investment weights in firms with negative ESG incidents, and those claiming active ownership strategies are more likely to vote for E&S proposals, especially those advocating greater transparency in ESG issues. These results provide robust evidence that funds better align their investments with their ESG claims after the launch. Our analysis of market consequences suggests ESG funds that improve their ESG performance to a greater extent experience lower returns but no decline in fund flows, suggesting that investors consider both ESG focus and expected returns when making investment decisions.

Collectively, our evidence substantiates the benefits of the SEC's oversight in the asset-management industry. Because the demand for ESG investing continues to rise and the concern about not walking the ESG talk is prevailing, our findings advocate for sustainable and robust regulatory oversight on ESG issues, reinforcing the notion that regulatory intervention is important for fostering accountability and integrity in the asset-management industry.

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Appendix A: Variable Definitions

Variable	**Definition**
Variables of interest	
Fund-quarter level	
ESG_Incident_w	The weighted sum of the number of negative ESG incidents for portfolio firms during quarter *q*, weighted by the investment weight of a given firm in fund *i's* portfolio at the end of quarter *q*. The negative ESG incidents of each portfolio firm in quarter *q* is obtained from RepRisk dataset.
ESG_Incident_w(H)	The weighted sum of the number of negative ESG incidents that have either high media reach or high severity (defined as Reach=3 or Severity=3 in RepRisk) from portfolio firms during quarter *q*, weighted by the investment weight of a given firm in fund *i's* portfolio at the end of quarter *q*.
ESG_Incident_e	The equal-weighted sum of the number of negative ESG incidents for portfolio firms during quarter *q*. The negative ESG incidents of each portfolio firm in quarter *q* is obtained from RepRisk dataset.
GHG_w	The natural logarithm of the weighted sum of portfolio firms' total GHG emissions of all three scopes (i.e., Carbon Scopes 1, 2, and 3) in year *y*, weighted by the investment weight of a give firm in the fund *i*'s portfolio at the end of quarter *q*.
TaskForce	An indicator equal to 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4).
ESGfund	An indicator equal to 1 for a mutual fund consistently labeled as an ESG fund around the launch of the Task Force, and 0 for those consistently identified as non-ESG funds. We identify ESG-labeled fund using a list of US domestic active equity mutual funds obtained by following Kacperczyk et al. (2008). An ESG fund is identified if its fund name contains ESG-related keywords or it labels itself as a "socially responsible" or "SRI" fund from Bloomberg terminal, Morningstar Socially Conscious fund list, and the US Sustainable Investment Forum (US SIF) membership list, following Heath et al. (2023).
ESGfund_Far	An indicator equal to 1 if the ESG fund is located beyond 200 miles of the SEC headquarters, and 0 otherwise.
ESGfund_Near	An indicator equal to 1 if the ESG fund is located within 200 miles of the SEC headquarters, and 0 otherwise.
ESGfund_HighESG Ratio	An indictor equal to 1 if an ESG fund's average ratio of ESG related sentences in its prospectus is above the sample median, and 0 otherwise.
ESGfund_LowESG Ratio	An indictor equal to 1 if an ESG fund's average ratio of ESG related sentences in its prospectus is above the sample median, and 0 otherwise.
Fund Flow	The percentage of new fund flows into the mutual fund over quarter *q+1*. It is calculated as the fund's total net assets (TNA) at the end of quarter *q+1* minus the product of the fund's TNA the end of quarter *q* and the sum of 1 and the net fund returns compounded over quarter *q+1*, all divided by the fund's TNA at the end of quarter *q*.

Fund Return	The return net of fees over quarter q+1.
Portfolio firm level	
Enter	An indicator equal to 1 if a portfolio firm is a newly entered stock in fund i's portfolio in quarter q, and 0 otherwise. A firm is identified as a newly entered firm if it is included in fund i's portfolio at the end of quarter q but was not present at the end of quarter q-1.
Exit	An indicator equal to 1 if a portfolio firm is a newly exited stock in fund i's portfolio in quarter q, and 0 otherwise. A firm is identified as a newly exited firm if it was included in fund i's portfolio at the end of quarter q-1 but is no longer included at the end of quarter q.
Weight	The investment weight of portfolio firm s in fund i's portfolio at the end of quarter q, multiplied 100.
Ln(Shares)	The natural logarithm of the number of portfolio firm s 's shares held by fund i at the end of quarter q, adjusted for stock splits and stock dividends.
GoodESG_D1	An indicator equal to 1 if the portfolio firm's industry-adjust MSCI score of 3 or higher at the end of quarter q-1, and 0 otherwise.
GoodESG_D1	An indicator equal to 1 if the portfolio firm's MSCI rating is of BB or above at the end of quarter q-1, and 0 otherwise.
Fossil_D	An indicator for fossil fuel stocks equal to 1 if portfolio firm s is in the coal or oil and gas industry (Trink et al., 2018), and 0 otherwise.
NegIncident_D	An indicator equal to 1 if portfolio firm s has at least one negative ESG event in Reprisk in quarter q-1, and 0 otherwise.
Sin_D	An indicator for sin stocks equal to 1 if portfolio firm s is involved in business related to tobacco, alcohol, entertainment, and weapons, and 0 otherwise.
#ESG_Incident	The number of negative ESG incidents for each portfolio firm over quarter q-1.
Voting Support	An indicator equal to one if a fund votes to support the E&S proposal, zero otherwise.

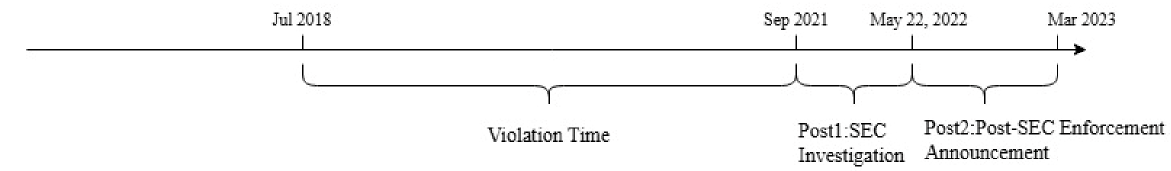
Control variables (measured at the end of quarter *q*-1)

Fund-level control variables	
Ln(Fund SIZE)	The natural logarithm of fund size. Fund Size is the total net assets (TNA) under management in millions of dollars at the end of quarter q-1.
Ln(Fund Age)	The natural logarithm of the number of months since the establishment of the fund, measured at the end of quarter q-1.
Expense Ratio	Expense ratio as of the most recently completed quarter, as provided by the CRSP Mutual Fund Database, defined as the ratio of total investment that shareholders pay for the fund operating expenses including 12b-1 fees and adjusted for waivers and reimbursements.

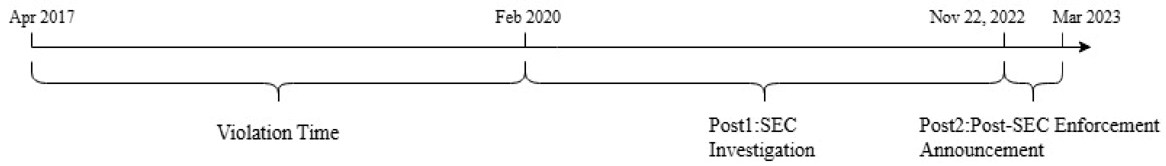
Turnover Ratio	Fund turnover ratio as provided by the CRSP Mutual Fund Database, defined as the minimum of aggregated sales or aggregated purchases of securities, the minimum divided by the average 12-month TNA of the fund.
Fund Flow$_{q-1}$	The percentage of new fund flows into the mutual fund over quarter *q*-1.
Fund Return$_{q-1}$	The return net of fees over quarter *q*-1.
Portfolio-firm-level control variables	
Ln(Firm Size)	Natural logarithm of the market value of firm *s*'s shares.
Firm Leverage	Long-term debt plus current liabilities divided by total assets for firm *s*.
Firm ROA	EBIT deflated by the book value of total assets for firm *s*.
Firm B/M ratio	The natural logarithm of 1 plus the book-to-market ratio, where book-to-market ratio is the book value of total assets divided by the market value of total assets.
Firm Growth	The quarterly change in firm's sales, as compared with the same fiscal quarter of the previous year.
Firm Return	Cumulative 12-month return of firm *s*.

Appendix B. Timeline of Enforcements against BNY Mellon and Goldman Sachs

Enforcement case l: Charges against BNY Mellon Investment Adviser



Enforcement case 2: Charges against Goldman Sachs Management



Appendix C: Validation Test: Changes in Fund-Level ESG Performance of Enforced Funds

	(1)	(2)	(3)	(4)
Dep. Var.=	**ESG _Incident_w**	**ESG _Incident_w(H)**	**ESG _Incident_w**	**ESG _Incident_w(H)**
Violation	**0.333***	**0.855*****		
	(1.65)	**(4.11)**		
Investigation			**-0.379****	**-0.496****
			(-2.02)	**(-2.52)**
PostAnnouncement			**-0.300****	**-0.545*****
			(-2.34)	**(-3.24)**
Ln (Fund Age)	-0.012	0.218	-0.134	-0.018
	(-0.07)	(1.44)	(-1.31)	(-0.13)
Ln (Fund Size)	0.185**	0.026	0.042	-0.001
	(2.09)	(0.62)	(0.79)	(-0.02)
Fund Return	2.398**	4.377***	3.351***	4.836***
	(2.43)	(2.87)	(2.90)	(3.74)
Fund Flow	-0.116	-0.058	-0.061	-0.032
	(-1.02)	(-0.30)	(-0.89)	(-0.34)
Expense Ratio	14.794	39.334	-10.448	-10.139
	(0.60)	(1.05)	(-0.56)	(-0.34)
Turnover Ratio	-0.351***	-0.227**	-0.056	-0.107
	(-2.82)	(-2.15)	(-0.47)	(-0.74)
Entropy Balance	Yes	Yes	Yes	Yes
Observations	5,971	5,725	4,818	4,743
Pseudo R^2	0.596	0.428	0.553	0.441
Fund FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

This table reports the Poisson regression results from Eq. (A1) in columns (1) and (2), examining the difference in fund-level ESG performance between the pre-violation periods and the violation periods (*Violation*) of enforced ESG funds. Columns (3) and (4) report the Poisson regression results from Eq. (A2), examining the change in fund-level ESG performance of enforced funds from the violation period to the SEC investigation period and post-enforcement announcement period. We restrict our sample to the fund-quarter observations of ESG funds designating non-enforced ESG funds as the control group and entropy-balance the means of the control variables between enforced ESG funds and non-enforced ESG funds:

$$ESG\_Incident\_w_{i,q} \text{ or } ESG\_Incident\_w(H)_{i,q} = \alpha_0 + \beta_1 Violation_{i,q} + c' Fund\ Control_{i,q-1} + Fund\ FEs + Time\ FEs + \varepsilon_{i,q} \quad \text{(A1)}$$

$$ESG\_Incident\_w_{i,q} \; or \; ESG\_Incident\_w(H)_{\,i,q} = \alpha_0 + \beta_1 Investigation_{i,q} + \beta_1 PostAnnouncement_{i,q} + c'Fund\ Control_{i,q-1} + Fund\ FEs + Time\ FEs + \varepsilon_{i,q}, \quad \text{(A2)}$$

where i and q denote fund and quarter, respectively. The dependent variable $ESG\_Incident\_w_{i,q}$ captures the fund-quarter level ESG performance. It is calculated as the weighted sum of the number of negative ESG incidents for portfolio firms during quarter q. The dependent variable $ESG\_Incident\_w(H)_{\,i,q}$ is calculated as the weighted sum of the number of negative ESG incidents that have either high media reach or high severity (defined as Reach=3 or Severity=3 in RepRisk) from portfolio firms. *Violation* is an indicator for enforced ESG funds during the periods in which the enforced ESG funds violated their public ESG commitment or policy in their investment decisions. It equals 1 for periods between 2018Q3 and 2021Q3 for funds managed by BNY Mellon Investment Adviser, and for periods between 2017Q2 and 2019Q4 for funds managed by Goldman Sachs Asset Management. *Investigation* is an indicator for enforced ESG funds during the periods in which the SEC investigated the enforced ESG funds, which equals 1 for periods between 2021Q4 and 2022Q1 for funds managed by BNY Mellon Investment Adviser, and equals 1 for periods between 2020Q1 and 2022Q3 for funds managed by Goldman Sachs Asset Management. *PostAnnouncement* is an indicator for enforced funds during the periods following the enforcement public announcement, which equals 1 for periods on or after 2022Q2 for funds managed by BNY Mellon Investment Adviser, and equals 1 for periods on or after 2022Q4 for funds managed by Goldman Sachs Asset Management. Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Figure 1: The dynamic coefficients on *ESGfund* × *TaskForce* in Eq. (2) when the dependent variable is *ESG_incident_w*

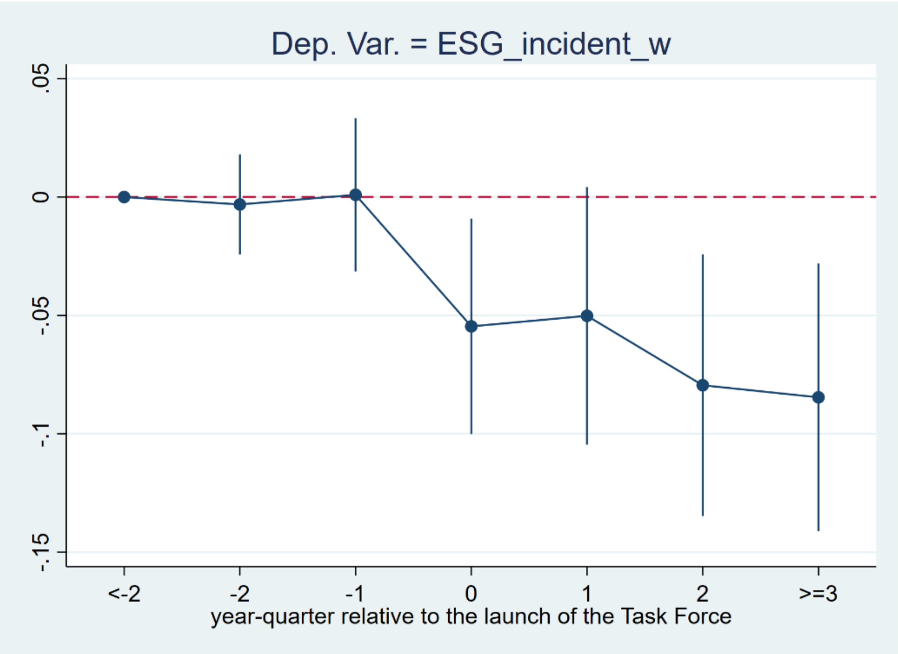


Table 1: Summary statistics

Panel A: *ESGfund=1, N=3,180 obs, covering 305 unique mutual funds*

	Mean	**Std**	**P10**	**P75**	**P50**	**P75**	**P90**
ESG_Incident_w	4.750	5.215	0.026	0.332	2.894	7.613	13.014
ESG_Incident_w (H)	1.675	2.065	0.000	0.041	0.873	2.603	4.754
Fund Return	0.010	0.054	-0.065	-0.021	0.012	0.043	0.074
Fund Flow	0.047	0.204	-0.118	-0.033	0.024	0.102	0.218
Ln (Fund Age)	4.872	0.795	3.761	4.331	5.033	5.463	5.763
Ln (Fund Size)	5.514	2.206	2.356	4.066	5.614	7.168	8.281
Expense Ratio	0.009	0.003	0.004	0.008	0.009	0.011	0.012
Turnover Ratio	0.467	0.408	0.120	0.210	0.350	0.590	0.950

Panel B: *ESGfund=0, N=18,707 obs, covering 1829 unique mutual funds*

	Mean	**Std**	**P10**	**P75**	**P50**	**P75**	**P90**
ESG_Incident_w	4.734	6.135	0.000	0.116	1.456	8.011	14.650
ESG_Incident_w (H)	1.627	2.402	0.000	0.000	0.328	2.488	5.308
Fund Return	0.011	0.053	-0.059	-0.019	0.012	0.042	0.073
Fund Flow	0.022	0.196	-0.140	-0.044	0.003	0.068	0.170
Ln (Fund Age)	5.042	0.749	3.989	4.564	5.188	5.603	5.863
Ln (Fund Size)	6.202	2.145	3.292	4.837	6.414	7.685	8.876
Expense Ratio	0.008	0.004	0.001	0.005	0.009	0.010	0.012
Turnover Ratio	0.513	0.440	0.110	0.220	0.400	0.680	1.060

Panel C: Distribution of ESG investment strategies

ESG investment strategy	**#funds**	
Negative screening funds	116	
a. sin stocks		99
b. fossil fuel stocks		68
c. stocks not meeting the ESG standards		64
Positive screening funds	23	
ESG integration funds	149	
Active ownership funds	43	

This table reports the summary statistics for the main variables of funds that consistently label themselves as ESG (or non-ESG) mutual funds during the pre- and post-the launch of the Task Force periods, which consists of 3,180 fund-quarter observations from 305 unique ESG mutual funds, and 18,707 fund-quarter observations from 1,829 unique non-ESG mutual funds from 2019Q4 to 2022Q3. Panel A and Panel B report the descriptive statistics of value-weighted fund-level ESG performance measures, constructed based on the negative ESG incidents of held stocks, as well as fund-level control variables for ESG mutual funds and non-ESG mutual funds, respectively. Note that in Panel B, non-ESG mutual funds are restricted to those managed by investment companies that manage both ESG and non-ESG funds. Panel C reports the distribution of ESG investment strategies for the 305 ESG funds in our sample. All variables are defined in Appendix A.

Table 2: Launch of the Task Force and Fund-Level ESG Performance

Dep. Var.=	(1)	(2)	(3)	(4)
	ESG_Incident_w		**ESG _Incident_w(H)**	
ESGfund × TaskForce	**-0.061****	**-0.069*****	**-0.079****	**-0.093****
	(-2.24)	**(-2.59)**	**(-2.13)**	**(-2.53)**
Ln (Fund Age)		-0.004		0.001
		(-0.08)		(0.03)
Ln (Fund Size)		0.052**		0.041
		(2.04)		(1.03)
Fund Return		8.109		3.357
		(0.99)		(0.36)
Fund Flow		-0.044		-0.077
		(-0.97)		(-1.51)
Expense Ratio		1.740**		3.534***
		(2.54)		(2.72)
Turnover Ratio		-0.042*		-0.004
		(-1.72)		(-0.14)
Entropy Balance	Yes	Yes	Yes	Yes
Observations	16,109	16,109	15,735	15,735
Pseudo R^2	0.647	0.648	0.521	0.523
Fund FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

This table reports the Poisson regression results from Eq. (2), examining the effects of the launch of the Task Force on fund-level ESG performance:

$$ESG\_Incident\_w_{i,q} \text{ or } ESG\_Incident\_w(H)_{\ i,q} = \alpha_0 + \beta_1 ESGfund_i \times TaskForce_q + c'Fund\ Control_{i,q-1} + Fund\ FE + Time\ FE + \varepsilon_{i,q}\,, \quad (2)$$

where i and q denote fund and quarter, respectively. In columns (1) and (2), the dependent variable $ESG\_Incident\_w_{i,q}$ captures the fund-quarter level ESG performance. It is calculated as the weighted sum of the number of negative ESG incidents for portfolio firms during quarter q, where the weight is the investment weight of each portfolio firm for fund i at the end of quarter q. The data on negative ESG incidents for each portfolio firm are obtained from the RepRisk dataset. In columns (3) and (4), the dependent variable $ESG\_Incident\_w(H)_{i,q}$ is calculated as the weighted sum of the number of negative ESG incidents that have either high media reach or high severity (defined as Reach=3 or Severity=3 in RepRisk) from portfolio firms. *ESGfund* is an indicator that equals 1 for a mutual fund consistently labeled as an ESG fund around the launch of the Task Force, and 0 for those consistently identified as non-ESG funds. *TaskForce* is an indicator that equals 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). Other variables are defined in Appendix A. Z-statistics are reported in parentheses. Standard errors are clustered by fund. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 3: Robustness Checks

Panel A: Alternative measures of fund-level ESG performance

	Previous quarter's ESG incidents of portfolio firms	Equal-weighted current quarter's ESG incidents of portfolio firms	GHG emissions of portfolio firms
	(1)	(2)	(3)
Dep. Var.=	**ESG_Incident_w**	**ESG_Incident_e**	**GHG_w**
ESGfund × TaskForce	**-0.071****	**-0.051****	**-0.079****
	(-2.50)	**(-2.05)**	**(-2.52)**
Controls	Yes	Yes	Yes
Entropy Balance	Yes	Yes	Yes
Observations	16,131	16,109	14,227
Pseudo/Adjusted R^2	0.65	0.510	0.957
Fund FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes

Panel B: Addressing the concern of window dressing in the fund-level ESG performance

	ESGfund_HighWD equals one if an ESG fund's quarterly return gap is above sample median		Exclude fund-quarters with return gap in the top quartile	
	(1)	(2)	(3)	(4)
Dep. Var.=	**ESG_Incident_w**	**ESG_Incident_w(H)**	**ESG_Incident_w**	**ESG_Incident_w(H)**
ESGfund × TaskForce			**-0.060****	**-0.082****
			(-2.28)	**(-2.16)**
[a]**ESGfund HighWD×TaskForce**	**-0.090*****	**-0.126*****		
	(-2.66)	**(-3.34)**		
[b]**ESGfund LowWD×TaskForce**	**-0.062****	**-0.083****		
	(-2.15)	(-1.98)		
P-value of F-test on *a*= *b*	0.69	0.87		
Controls	Yes	Yes	Yes	Yes
Entropy Balance	Yes	Yes	Yes	Yes
Observations	16,109	15,735	13,288	12,885
Pseudo R^2	0.648	0.523	0.641	0.511

Fund FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

This table presents the results of robustness tests on the effects of the launch of the Task Force on fund-level ESG performance in Table 2. Panel A reports the results of estimating Eq. (2) using alternative measures of fund-level ESG performance. Columns (1)reports the Poisson regression results using ESG incidents of portfolio firms from previous quarter to measure fund-level ESG performance; column (2) reports the Poisson regression results using equal-weighted ESG incidents of portfolio firms to measure fund-level ESG performance; column (3) reports the OLS regression results using GHG emissions of portfolio firms to measure fund-level ESG performance. Panel B reports the Poisson regression results of robustness tests that examine whether the observed decrease in the weighted sum of negative ESG incidents at the fund level, after the launch of the Task Force, is driven by fund managers engaging in window dressing at the end of the quarter. In columns (1) and (2), the independent variable *ESGfund* in Eq. (2) is divided into two subgroups: *ESGfund_HighWD* and *ESGfund_LowWD*. The partition is based on the backward holding return gap following Agarwal et al. (2014), an absolute measure that compares the hypothetical quarterly return of a ESG fund's reported holdings with the fund's actual quarterly return. In particular, *ESGfund_HighWD* (or *ESGfund_LowWD*) equals 1 if an ESG fund's quarterly return gap is above (or below) the sample median, zero otherwise. Columns (3) and (4) report the Poisson regression results of re-running Eq. (2) using a sample that excludes fund-quarters with the backward holding return gaps in the top quartile. Other variables are defined in Appendix A. Z-statistics are reported in parentheses. Standard errors are clustered by fund. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 4: Cross-Sectional Heterogeneity

Panel A: Conditional on the strength of SEC oversight

	(1)	(2)
Dep. Var.=	**ESG_Incident_w**	**ESG_Incident_w(H)**
[a]ESGfund Near × TaskForce	**-0.322***	**-0.475****
	(-1.68)	**(-2.26)**
[b]ESGfund Far × TaskForce	**-0.052****	**-0.068***
	(-2.02)	**(-1.87)**
P-value of F-test on a= b	*0.16*	*0.06*
Controls	Yes	Yes
Entropy Balance	Yes	Yes
Observations	16,109	15,735
Pseudo R^2	0.648	0.524
Fund FE	Yes	Yes
Time FE	Yes	Yes

Panel B: Conditional on the ESG emphasis in fund prospectus

	(1)	(2)
Dep. Var. =	**ESG_Incident_w**	**ESG_Incident_w (H)**
[c]ESGfund HighESGRatio × TaskForce	**-0.138*****	**-0.201*****
	(-3.22)	**(-4.23)**
[d]ESGfund LowESGRatio × TaskForce	**-0.006**	**0.010**
	(-0.18)	**(0.21)**
P-value of F-test on c=d	*0.01*	*0.00*
Controls	Yes	Yes
Entropy Balance	Yes	Yes
Observations	16,109	15,735
Pseudo R^2	0.648	0.524
Fund FE	Yes	Yes
Time FE	Yes	Yes

This table reports the cross-sectional Poisson regression results on the impact of the launch of the Task Force on fund-level ESG performance conditional on the strength of SEC oversight in Panel A and the emphasis on ESG issues in fund prospectus in Panel B. The dependent variable $ESG\_Incident\_w_{i,q}$ captures the fund-quarter-level ESG performance. It is calculated as the weighted sum of the number of negative ESG incidents for portfolio firms during quarter q. The dependent variable $ESG\_Incident\_w(H)_{i,q}$ is calculated as the weighted sum of the number of negative ESG incidents that have either high media reach or high severity (defined as Reach=3 or Severity=3 in RepRisk) from portfolio firms. *TaskForce* is an indicator equal to 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). In Panel A, *ESGfund_Near* (*ESGfund_Far*) equals 1 if the ESG fund is located within (beyond) 200 miles of the SEC headquarters, and 0 otherwise. In Panel B, *ESGFund_HighESGRatio* (*ESGFund_LowESGRatio*) equals 1 if an ESG fund's average ratio of ESG related sentences in its prospectus is above (below) the sample median, and 0 otherwise. Other variables are defined in Appendix A. Z-statistics are reported in parentheses. Standard errors are clustered by fund. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 5: Negative Screening ESG Funds

	(1)	(2)	(3)
Dep. Var. =		**$Exit_q$**	
Screening criteria	Sin stocks	Fossil fuel stocks	Stocks with ESG violation or controversial incidents
ESGfund ×TaskForce	-0.003	-0.011	-0.007
	(-0.47)	(-1.13)	(-0.97)
Sin_D	0.016**		
	(2.78)		
Sin_D × **ESGfund** × **TaskForce**	-0.022		
	(-1.08)		
Sin_D × ESGfund	0.005		
	(0.52)		
Sin_D × TaskForce	-0.007		
	(-0.69)		
Fossil_D		0.030***	
		(5.75)	
Fossil_D × **ESGfund** ×**TaskForce**		**0.050****	
		(1.98)	
Fossil_D × ESGfund		0.003	
		(0.27)	
Fossil_D ×TaskForce		-0.034***	
		(-5.13)	
NegIncident_D			0.004
			(1.52)
NegIncident_D × **ESGfund** × **TaskForce**			**0.018****
			(2.88)
NegIncident_D ×ESGfund			0.005
			(1.28)
NegIncident_D ×TaskForce			-0.016**
			(-3.19)
Portfolio firm controls	Yes	Yes	Yes
Fund controls	Yes	Yes	Yes
Entropy Balance	Yes	Yes	Yes
Observations	1,538,103	1,520,748	1,528,319
Adjusted R-squared	0.064	0.066	0.063
Fund FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes

This table presents the results of the effect of the Task Force launch on the portfolio stock exclusion of ESG funds with negative screening investment strategies using a sample of fund-quarter-portfolio firm observations. It examines the effects of the launch of the Task Force on the sensitivity of ESG funds' negative screening (*Exit*) to stocks that meet the claimed screen out ESG criteria using a linear probability model. *Exit* equals 1 if a portfolio firm is a newly exited stock in fund *i*'s portfolio in quarter *q*, and 0 otherwise. *Sin_D* is an indicator for sin stocks equal to 1 if portfolio firm s is involved in business related to tobacco, alcohol, entertainment, and weapons, and 0 otherwise. *Fossil_D* in an indicator for fossil fuel stocks equal to 1 if portfolio firm s is in the coal or oil and gas industry (Trink et al., 2019), and 0 otherwise. *NegIncident_D is an* indicator equal to 1 if portfolio firm *s* has at least one negative ESG event in Reprisk in quarter *q*-1, and 0 otherwise. *ESGfund* is an indicator that equals 1 for a ESG funds that claim to exclude sin stocks in Column 1, that claim to exclude fossil fuel stocks in Column 2, and that claim to exclude the stocks involve in ESG related violation or controversial incidents in Column 3, and 0 for those consistently identified as non-ESG funds. *TaskForce* is an indicator that equals 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund and portfolio firm. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 6: Positive Screening ESG Funds

	(1)	(2)
Dep. Var. =	**$Enter_q$**	
Screening criteria	MSCI industry-adjusted ESG score	MSCI ESG rating
ESGfund × TaskForce	-0.062***	-0.103***
	(-3.85)	(-4.70)
GoodESG_D1	-0.000	
	(-0.11)	
GoodESG_D1× ESGfund	-0.064***	
	(-5.45)	
GoodESG_D1× TaskForce	-0.002	
	(-0.81)	
GoodESG_D1 × ESGfund × TaskForce	**0.063*** **	
	(3.84)	
GoodESG_D2		-0.001
		(-0.50)
GoodESG_D2 × ESGfund		-0.093***
		(-4.29)
GoodESG_D2 × TaskForce		-0.002
		(-1.01)
GoodESG_D2 × ESGfund × TaskForce		**0.105*** **
		(4.04)
Portfolio firm controls	Yes	Yes
Fund controls	Yes	Yes
Entropy-balanced	Yes	Yes
Observations	1,261,624	1,261,624
Adjusted R-squared	0.053	0.053
Fund FE	Yes	Yes
Time FE	Yes	Yes

This table presents the results of the effect of the Task Force launch on the portfolio stock inclusion of ESG funds with positive screening investment strategies, using a sample of fund-quarter-portfolio firm observations. It examines the effects of the launch of the Task Force on the sensitivity of ESG funds' positive screening (*Enter*) to stocks with superior ESG performance using a linear probability model. *Enter* equals 1 if a portfolio firm is a newly entered stock in fund *i*'s portfolio in quarter *q*, and 0 otherwise. *GoodESG_D* can be an indicator for portfolio stocks with industry-adjust MSCI score of 3 or higher (*GoodESG_D1),* or portfolio stocks with MSCI rating of BB or above (*GoodESG_D2)* in quarter q-1. *ESGfund* is an indicator that equals 1 for a ESG funds that claim to apply positive ESG screening approaches, and 0 for those consistently identified as non-ESG funds. *TaskForce* is an indicator that equals 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund and portfolio firm. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 7: ESG Integration Funds

	(1)	(2)
Dep Var. =	**$Weight_q$**	**$Ln(Shares)_q$**
#ESG_Incident	-0.011**	-0.001
	(-2.29)	(-0.50)
#ESG_Incident × ESGfund	0.000	0.001
	(0.09)	(0.24)
#ESG_Incident × TaskForce	-0.001	0.000
	(-0.58)	(0.74)
#ESG_Incident × ESGfund × TaskForce	**-0.004****	**-0.003*****
	(-2.50)	**(-3.41)**
ESGfund × TaskForce	-0.006	0.057
	(-0.32)	(1.58)
Portfolio firm controls	Yes	Yes
Fund controls	Yes	Yes
Entropy-balanced	Yes	Yes
Observations	1,444,638	1,444,710
Adjusted R-squared	0.781	0.920
Fund FE	Yes	Yes
Portfolio firm FE	Yes	Yes
Time FE	Yes	Yes

This table presents the results of the effect of the Task Force launch on the portfolio weight adjustment of ESG funds with ESG integration investment strategies, using a sample of fund-quarter-portfolio firm observations. It reports the OLS regression results of examining the effects of the launch of the Task Force on the sensitivities of ESG funds' investment weight and stock holdings to firms' ESG performance. $Weight$ represents the investment weight of firm s in fund i's portfolio in quarter q, multiplied by 100. $Ln(Shares)$ is the natural logarithm of the number of portfolio firm s 's shares held by fund i at the end of quarter q, adjusted for stock splits and stock dividends. $\#ESG\_Incident$ is a proxy for firm's real ESG performance, defined as the number of negative ESG incidents. *ESGfund* is an indicator that equals 1 for a ESG funds that claim to adopt ESG integration investment approaches, and 0 for those consistently identified as non-ESG funds. *TaskForce* is an indicator that equals 1 for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund and portfolio firm. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 8: Active Ownership ESG Funds

	(1)	(2)	(3)
Dep Var. =		**Voting Support**	
Voting Support=1 if vote to support	Any type of E&S related Proposals	Transparency-related E&S Proposals	Other Types of E&S Proposals
ESGfund × TaskForce	0.064**	0.033**	0.031
	(2.13)	(2.20)	(1.32)
Fund controls	Yes	Yes	Yes
Entropy-balanced	Yes	Yes	Yes
Observations	36,934	36,934	36,934
Adjusted R-squared	0.626	0.773	0.622
Firm-Fund FE	Yes	Yes	Yes
Firm-Proposal-Year FE	Yes	Yes	Yes

This table presents the results of the effect of Task Force launch on the voting behaviors of ESG funds, using funds' voting records for a given proposal of its portfolio firms, obtained from ISS Voting Analytics Dataset. It examines the effects of the launch of the Task Force on ESG funds' voting behaviours relative to non-ESG funds for same firm's same environmental or social (E&S) proposals. *Vote Support* is an indicator that equals one if a fund votes to support the E&S proposal in Column (1), transparency-related E&S proposal in Column (2), and other types of E&S proposal in Column (3), zero otherwise. *ESGfund* is an indicator that equals 1 for an ESG fund that claims to have ESG engagement, and 0 for those consistently identified as non-ESG funds. *TaskForce* is an indicator that equals one for quarters that end on or after the launch of the Task Force (from 2021Q1 to 2022Q1), and 0 for the pre-launch period (from 2019Q4 to 2020Q4). Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.

Table 9: The Launch of the Task Force and ESG Funds' Market Consequences

	(1)	(2)	(3)	(4)
Dep. Var.=	**$FundReturn_{q+1}$**		**$FundFlow_{q+1}$**	
ESGfund × TaskForce	-0.001		0.016**	
	(-0.49)		(2.52)	
[a]**ESGfund_ImproveMore × TaskForce**		-0.004**		0.005
		(-2.00)		(0.73)
[b]**ESGfund_ImproveLess × TaskForce**		0.003		0.029***
		(1.53)		(3.12)
Ln (Fund Age)	0.015***	0.015***	0.081***	0.080***
	(3.66)	(3.67)	(3.20)	(3.18)
Ln (Fund Size)	-0.015***	-0.015***	-0.164***	-0.164***
	(-10.02)	(-10.16)	(-18.50)	(-18.51)
Fund Return			0.684***	0.677***
			(9.13)	(9.13)
Fund Flow	0.000	-0.000		
	(0.05)	(-0.03)		
Expense Ratio	-1.114***	-1.082***	-4.922*	-4.807*
	(-2.60)	(-2.59)	(-1.76)	(-1.73)
Turnover Ratio	0.002	0.002	0.011	0.012
	(1.00)	(1.13)	(1.11)	(1.20)
P-value of F-test on a= b		0.00		0.00
Entropy Balance	Yes	Yes	Yes	Yes
Observations	18,127	18,127	18,127	18,127
Adjusted R^2	0.791	0.792	0.578	0.578
Fund FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes

This table reports the OLS results examining the effects of the Task Force launch on ESG fund returns and flows by replacing the dependent variables of Eq. (2) with *FundFlow* or *FundReturn*, respectively. The dependent variable *FundReturn* in columns (1) and (2) is the return net of fees over quarter *q*+1. The dependent variable *FundFlow* in columns (3) and (4) is the percentage of new fund flows into the mutual fund over quarter *q*+1. It is calculated as the fund's total net assets (TNA) at the end of quarter *q*+1 minus the product of the fund's TNA at the end of quarter *q* and the sum of one and the net fund returns compounded over quarter *q*+1, all divided by the fund's TNA the end of quarter *q*. In columns (2) and (4), *ESGfund_ImproveMore* (*ESGfund_ImproveLess*) equals 1 if an ESG fund's change in the weighted sum of negative ESG incidents from portfolio firms (*ESG_Incident_w*) around the launch of the Task Force is below (above) the sample median, and 0 otherwise. Other variables are defined in Appendix A.T-statistics are reported in parentheses. Standard errors are clustered by fund. *, **, and *** indicate significance levels of 10%, 5%, and 1% using two-tailed tests, respectively.