In brief

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SEC proposal on fund and adviser ESG disclosures

At a glance

The SEC has proposed enhanced disclosures for funds and investment advisers that consider ESG factors.

What happened?

On May 25, the SEC proposed enhanced disclosures for funds (registered investment companies (RICs) and business development companies (BDCs)) and investment advisers (registered investment advisers and certain advisers exempt from registration) that consider ESG factors in their portfolios. The proposal identifies three types of funds with tiered disclosure requirements.

- Integration funds - Funds that integrate ESG factors with non-ESG factors in investment decisions would be required to describe how they do so.
- ESG-focused funds - Funds that significantly or primarily consider ESG factors in investment decisions would be required to provide detailed disclosure about their ESG strategy, including a standardized ESG strategy overview table.
- Impact funds - A subset of ESG-focused funds that seek to achieve a particular ESG impact would be required to quantitatively disclose how they measure progress toward their objectives.

The disclosures for certain ESG-focused funds would include the percentage of ESG-related proxy matters supported by the fund as well as information regarding ESG engagement meetings. Impact funds would also need to disclose key metrics on the fund's ESG goals and related progress. Greenhouse gas (GHG) emissions would generally be required to be disclosed for ESG-focused funds that consider environmental factors in their investment strategies. Disclosures would include specified scope 1 and 2 GHG emissions metrics of the portfolio as well as scope 3 emissions if they are reported by the portfolio companies.[1] Scope 3 financed emissions would be reported separately from scope 1 and 2 financed emissions and separately for each industry sector in which the fund invests.

The proposed disclosures would be in the fund prospectus and in the management's discussion of fund performance section of fund annual reports. Advisers that consider ESG factors would be required to make similar disclosures in their brochures and Form ADV filings with the SEC.

For more details about the proposed disclosure requirements, refer to the SEC's proposed rule or fact sheet.

Why is this important?

The proposal would standardize disclosure requirements for funds that consider ESG factors in their investment allocations in an effort to provide more decision-useful information to investors.

[1] For more information on greenhouse gas emissions, listen to our podcasts, Getting smarter on GHG emissions: Scope 1 and Scope 2 and Getting smarter on GHG emissions: Scope 3.

What's next?

Public comments were due on August 16, 2022. The rule would be effective after a one-year transition period following the date the final rule is posted in the Federal Register.

Funds and advisers should begin to prepare by first determining their current and future strategic level of focus on ESG factors. With this understanding, they should assess the policies, procedures, and data underlying their ESG investments and consider whether there is a need to enhance governance and compliance oversight. In addition, funds and advisers impacted will need information from the companies in which they invest, which may be private and not otherwise subject to SEC rules. It is best to begin discussion now on timing and availability of information.

To have a deeper discussion, contact:

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