



August 16, 2022

Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**RE: File No. S7-17-22**

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposed rule, *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices*. We are pleased to provide our perspectives, which are informed by our interactions with investors, investment companies, and investment advisers. Our views also incorporate our experiences as a global business, and our history of engagement and proactive thought leadership on ESG matters.

In our June 17 response to the SEC's proposed rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the climate-related disclosures proposal), we provided our perspective that the increased transparency provided by quality climate information is important for the liquidity and efficiency of the capital markets. We believe the benefits of transparency extend to ESG disclosures more broadly, especially in the context of the exponential growth in ESG investing. Funds and investment advisers that hold themselves out to be ESG focused have an obligation to support and disclose how their activities are consistent with that objective. Requiring investment advisors and funds to provide more robust ESG disclosures will achieve the objective of enabling investors to make more informed decisions; we support the SEC's efforts to improve transparency and combat so-called "greenwashing."

We believe certain changes, however, are needed to improve the operability of the proposed rule and the usefulness of the new disclosures. Consistency of application and compliance with the proposed rule is dependent on a meeting of the minds between the Commission and funds with regard to the types of strategies intended to elicit enhanced disclosures. As noted in the proposal itself, the Commission has declined to define ESG or to provide specific guidelines, instead referencing a variety of terms that are commonly used to describe investing that has an environmental, social, or governance objective. We encourage the Commission to more clearly describe the types of strategies it envisions would subject a fund to the proposed rules. A principles-based framework would provide understandable boundaries, while allowing for interpretation based on intent and flexibility as this type of investing matures.

We also recommend certain changes to the definitions of Integration Funds, ESG-Focused Funds, and Impact Funds. Although we broadly agree with the proposed categories, we believe the definitions need further refinement to more clearly delineate a fund's classification. For example, one potential modification would be to include funds by reference to their stated objectives and advertisements or sales literature. We also propose clarifications related to the delineation between ESG-Focused Funds and Impact Funds.



*Operability*

We support enhanced disclosures for funds that rely on proxy voting and engagement with issuers other than proxy voting to further their objectives and goals. We believe, however, that the proxy voting disclosures would be more effective if included together with the broader proxy voting disclosures included in Form N-PX. Further, we recommend modifying the disclosure requirements to provide more context for the fund’s ESG voting record. We also recommend certain modifications to the proposed disclosures of engagement with issuers to provide more context and substance.

The proposed rule would require enhanced disclosure of greenhouse gas emissions data; emissions data is also a key component of the climate-related disclosures proposal. Given investors’ increasing interest in climate-related disclosures in general, and emissions data in particular, we support additional disclosure of greenhouse gas information for certain funds. We believe, however, that the usefulness of the metrics could be improved by aligning the disclosures more closely with a fund’s stated emissions objectives as well as potentially modifying the metrics and methodologies used.

In addition, consistent with our recommendation in our June 17 response letter to the climate-related disclosures proposal, we also advocate for the establishment of a transparent, inclusive implementation group under the leadership of the SEC staff to support quality in disclosures through the timely identification, discussion, and resolution of application matters both prior to and after the effective date of the proposed rule. We believe this group — with representatives drawn from a cross section of the SEC’s constituencies, formal due process, and publicly reported interpretations — would improve disclosure comparability and usefulness, while reducing the cost of the compliance process.

*Investor-grade information*

Investors expect quality data and are entitled to the same confidence in ESG information as they currently expect from financial disclosures. Funds may need to develop or enhance their systems, processes, and controls to produce information of the scope required by the proposed disclosures at a level of quality commensurate with that expected in an SEC filing. As a result, we recommend that the Commission consider the timing of adoption in the context of its other recent rulemaking focused on the asset and wealth management industry as well as its climate-related disclosures proposal.

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The appendix includes our observations and recommendations by section of the proposal. We would be pleased to discuss our comments or answer any specific questions the Commission or its staff may have. Please contact Wes Bricker at [wesley.bricker@pwc.com](mailto:wesley.bricker@pwc.com) or Kathryn Kaminsky at [kathryn.s.kaminsky@pwc.com](mailto:kathryn.s.kaminsky@pwc.com) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP



**A. Proposed fund disclosures to investors**

***Proposed prospectus ESG disclosure enhancements***

The proposed rules are designed to provide investors with clear and comparable information about how a fund that states it engages in ESG investing implements that strategy. We agree that additional information about a fund’s ESG strategy and results would benefit investors, particularly those attempting to direct their investments in a way they believe is benefiting the environment or society more broadly.

While whether the fund engages in “ESG investing” is the gating criterion determining the applicability of the proposed rules, the Commission has specifically declined to define the term ESG. In the less than 20 years since the term “ESG” was coined by the United Nations Environmental Programme Finance Initiative, it — together with similar terms such as sustainability and social responsibility — has become part of the common lexicon, despite lacking a clear definition. The Commission acknowledges its decision not to provide a definition or clarify the scope, indicating in footnote 6 to the proposing release:

For the purposes of this release and the proposed rules, the Commission uses the term “ESG” to encompass terms such as “socially responsible investing,” “sustainable,” “green,” “ethical,” “impact,” or “good governance” to the extent they describe environmental, social, and/or governance factors that may be considered when making an investment decision. These terms, however, are not defined in the Advisers Act, the Investment Company Act, or the rules or forms adopted thereunder.

Consistency of application and compliance with the proposed rule is dependent on a meeting of the minds between the Commission and funds with regard to the types of strategies intended to elicit enhanced disclosures. Adding to the complexity is that the labels used to describe investment strategies continue to evolve — for example, anecdotally we understand that some investors no longer use the term ESG. Thus, instead of relying on specific terms to frame the expected scope, we encourage the Commission to provide a principles-based framework with understandable boundaries — for example focused on the substance of the fund’s strategy and position — that allows for interpretation and flexibility as this type of investing matures.

A defined framework would also minimize the risk that funds with similar strategies reach different scoping conclusions. For example, a fund manager may consider governance factors as part of their due diligence when making investment decisions. If a fund outlines minimum governance criteria, is that automatically “good governance” within the scope of the rule? What if the fund considers factors such as board composition and diversity? A principles-based framework describing what is meant by “ESG investing” will be important to understanding the applicability of the proposed rule.

In addition to better delineation of the term “ESG,” we recommend that the Commission consider clarifying the definitions and related disclosures for the three fund types outlined in the proposal: Integration Funds, ESG-Focused Funds, and Impact Funds.

*Integration Funds*

The Commission has proposed to define an Integration Fund as:

A Fund that considers one or more ESG factors alongside other, non-ESG factors in its investment decisions, but those ESG factors are generally no more significant than other factors in the investment



selection process, such that ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio.<sup>1</sup>

In our view, one of the benefits of the proposed rules is to curtail the growing risk of greenwashing: funds whose commitments to ESG investing lack substance or support. As written, however, we believe the proposed definition of an Integration Fund is far-reaching and could capture most — if not all — funds that are not ESG-Focused Funds or Impact Funds, inadvertently including many funds not otherwise touting an ESG focus into the ESG reporting regime. As such, we believe the Commission should refine the scope of the Integration Funds definition. One potential modification would be to require enhanced disclosures for those funds with advertisements or sales literature indicating that the fund’s investment decisions incorporate one or more ESG factors. And, Integration Funds would be differentiated from ESG-Focused Funds because the focused funds use ESG factors as a “significant or main” consideration.

Subject to our recommendation to refine the definition, we generally support the proposed scope of disclosures in an Integration Fund’s prospectus. The proposed description of how ESG factors are considered compared to other factors in investment selection would better inform investors about the relative weight and specific ESG elements considered. We have concerns, however, about the proposed incremental disclosures for Integration Funds that consider greenhouse gas (GHG) emissions of portfolio holdings in their investment selection process. As the proposal itself notes, an overemphasis on the role of ESG factors implied by requiring a more detailed discussion “could impede informed investment decisions because ESG factors discussed at length would not play a central role in the fund’s strategy.”<sup>2</sup> Consistent with the Commission’s broader philosophy on disclosures for Integration Funds, we believe expanded disclosure about GHG emissions would imply that such emissions are a more important factor than any other factor — ESG or otherwise — that a fund evaluates as part of the investment selection process. Thus, we recommend that the Commission remove this proposed requirement for Integration Funds.

#### *ESG-Focused Funds*

The Commission has proposed to define an ESG-Focused Fund as one “that focuses on one or more ESG factors by using them as a significant or main consideration (1) in selecting investments or (2) in its engagement strategy with the companies in which it invests.”<sup>3</sup> Further, it would automatically include any fund that markets itself as having an ESG focus. As noted above, we believe ESG-Focused Funds are sufficiently differentiated from Integration Funds because ESG factors are elevated to a “significant or main” consideration in investment decisions. We recommend, however, that the Commission consider clarifying the definition of ESG-Focused Fund to specifically include those funds for which one or more ESG factors is determinative when making investment decisions.

Further, as noted, the definition of an ESG-Focused Fund includes a fund that uses one or more ESG factors as a significant or main consideration “in its engagement strategy with the companies in which it invests.”<sup>4</sup> We believe engaging with companies is generally more indicative of an Impact Fund, as this behavior would typically support achievement of a specific ESG outcome. As such, we recommend that the Commission revise the ESG-Focused Fund definition to remove the reference to engagement strategy, instead including it in the definition of an Impact Fund (see “Impact Funds” section).

We support the proposed approach to disclosure, including the use of the “ESG Strategy Overview Table” as a means of summarizing the fund’s ESG strategy. We agree that this approach would achieve the objective of helping investors “to compare and analyze different ESG-Focused Funds more easily as they

<sup>1</sup> SEC proposed ESG disclosures rule, page 332

<sup>2</sup> Ibid., page 27

<sup>3</sup> Ibid., page 332

<sup>4</sup> Ibid.



make investment decisions.”<sup>5</sup> We note, however, that whereas most boxes in the “Overview of the Fund’s [ESG] strategy” section of the table would be checked based on “any” use of the strategy, there is a higher threshold (i.e., “significant”) for “Proxy voting” and “Engagement with issuers.” We recommend that the Commission consider clarifying the table; the disclosure may be potentially misleading to investors because it commingles degrees of engagement. Alternatives may include adding a parenthetical notation to “Proxy voting” and “Engagement with issuers” or moving these categories to a separate section for strategies that are significant.

### *Impact Funds*

We support requiring incremental disclosures for ESG-Focused Funds that seek to achieve a specific ESG outcome (i.e., Impact Funds). Notwithstanding our recognition that certain funds may warrant supplemental disclosure, however, we do not believe that the proposed definition of Impact Funds sufficiently differentiates them from other ESG-Focused Funds. Specifically, we recommend that the Commission expand the definition of Impact Funds to include a fund “that focuses on one or more ESG factors by using them as a significant or main consideration in its engagement strategy with the companies in which it invests” (and, as noted above, remove this criterion from the broader definition of ESG-Focused Funds). This change would better align the disclosures around objectives and goals with the fund’s engagement.

### ***Fund annual report ESG disclosure***

We support mandatory disclosure of additional information about a fund’s ESG activities in its annual report. We agree with the Commission that inclusion of this information in Management’s Discussion of Fund Performance (MDFP) and Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for registered investment companies and business development companies, respectively, has the benefit of providing investors with the opportunity to look at a company “through the eyes of management.”<sup>6</sup> Further, we believe that the greater integration of ESG information with broader disclosures about a fund’s financial information, performance, and returns enhances value by providing greater context for both ESG and financial data. We also support enhanced disclosure of fund activities because of our concerns with greenwashing.

We have concerns, however, regarding the operability of the annual report disclosure rule as proposed. We recommend that the Commission consider modifying the proposed ESG proxy voting, ESG engagement, and GHG emissions metrics disclosures to facilitate preparation of the information by funds and improve the usefulness of disclosures for investors.

### *ESG proxy voting disclosure*

Voting is one of the primary means for shareholders to influence a company’s priorities, activities, and governance; a fund’s relatively larger holdings compared to individual shareholders may provide it with more influence in determining the outcome of these votes. Transparency regarding how a fund votes is currently provided by Form N-PX, which, among other details, requires the provision of (a) a brief identification of the matter voted on, (b) whether the matter was proposed by the issuer or by a security holder, (c) whether and how the fund cast its vote on the matter, and (d) whether the fund cast its vote for

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<sup>5</sup> SEC proposed ESG disclosures rule, page 37

<sup>6</sup> *Ibid.*, page 71



or against management. Further, the SEC has proposed amendments to Form N-PX which would require filers to classify the subject matter of the votes by various categories.<sup>7</sup>

As proposed, an ESG-Focused Fund that uses proxy voting as a significant means of implementing its ESG strategy would be required to disclose the percentage of ESG-related voting matters “for which the Fund voted in furtherance of the initiative” in its annual report.<sup>8</sup> The disclosure would be limited to votes on ESG factors that the fund incorporates into its investment decisions. We generally support the proposal to require the disclosure of additional information when proxy voting is a significant means of implementing an ESG strategy (although as discussed in the “ESG-Focused Funds” section, we believe engagement is a characteristic of an Impact Fund, not ESG-Focused Funds more broadly). The framing of this disclosure, however, suggests that a “yea or nay” vote alone provides sufficient information about a fund’s voting record. ESG matters brought to vote may include proposals that do not embrace — and, in fact, may be contrary to — the mitigation of, or adaptation to, ESG-related risks or the transition to a lower carbon economy. The disclosure of a percentage of votes for or against ESG proposals likely would not provide sufficient context without understanding the nature and number of proposals raised.

As noted, the SEC is currently considering amendments to Form N-PX. We believe proxy voting information would be more meaningful in the context of a fund’s broader voting record, rather than isolated in the annual report. Inclusion of similar information in two places would also duplicate efforts and risk misunderstanding. Thus, in lieu of disclosing ESG proxy voting information in the annual report, we recommend that the Commission require supplemental disclosures in Form N-PX for an ESG-Focused Fund that relies on proxy voting as a significant means of implementing its ESG strategy. For example, the supplemental disclosures could include classification of proxy votes, as the Commission is currently considering, together with a summary of the specific votes related to ESG matters considered in the fund’s strategy. Delineating these matters from other votes, including other ESG matters, would help achieve the objective of highlighting these matters for users, while including them only in Form N-PX would ensure that users have the context of the fund’s broader voting record and also minimize the incremental effort required by the fund.

#### *ESG engagement disclosure*

The proposed rules would require an ESG-Focused Fund that uses engagement with issuers — other than proxy voting — as a significant means of implementing its ESG strategy to disclose progress on key performance indicators as a result of that engagement. To the extent a fund considers direct engagement to be a viable and productive means of achieving an ESG objective, we support providing enhanced disclosures to underpin the effectiveness of that assertion. As discussed in the “ESG-Focused Funds” section, however, we believe engagement is a characteristic of an Impact Fund, not ESG-Focused Funds more broadly. Further, we are concerned that some of the provisions as proposed may not accomplish that objective or may be misinterpreted.

The proposed rule would require an in-scope ESG-Focused Fund to include details in its annual report regarding the number or percentage of issuers with whom the fund adviser held “ESG engagement meetings,” as defined, as well as the total number of ESG engagement meetings. For this purpose, an ESG engagement meeting would be defined as:

A substantive discussion with management of an issuer advocating for one or more specific ESG goals to be accomplished over a given time period, where progress that is made toward meeting such goal is

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<sup>7</sup> SEC proposed rule, [Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers](#)

<sup>8</sup> SEC proposed ESG disclosures rule, pages 323 and 338





measurable, that is part of an ongoing dialogue with management regarding this goal.<sup>9</sup>

The proposal itself, however, acknowledges that “the level of subjectivity involved in determining whether a discussion meets the definition of an ESG engagement meeting could diminish the comparability across funds of the statistics reported pursuant to this instruction.”<sup>10</sup> Further, meetings may denote effort but would not necessarily correlate to efficacy; tracking meetings and judging whether an individual meeting qualifies as an ESG engagement meeting would also require significant incremental administrative effort without a clear benefit to investors. We recommend, therefore, that in lieu of the number of meetings, the Commission consider instead requiring disclosure of the fund’s approach toward achieving the specified objective (which may include periodic meetings with management), together with the proposed disclosure of key performance indicators and progress made in achieving them.

Nonetheless, if the Commission requires disclosure of meetings, we believe changes are needed to ensure that the requirement is operational. Specifically, we have concerns about the requirement to “disclose the number or percentage of issuers with which the Fund held ESG engagement meetings and total number of ESG engagement meetings.”<sup>11</sup> We believe that the total number of ESG meetings may be misleading and mostly reflect a fund’s meeting strategy (e.g., frequent short meetings versus less frequent but longer meetings). We instead recommend that the Commission require disclosure of the number *and* percentage of issuers with which the fund engaged. We believe that this information — together with the fund’s strategy and progress toward meeting key performance indicators — would be the most meaningful to investors.

#### *GHG emissions metrics disclosure*

Given investors’ increasing interest in climate-related disclosures in general, and emissions data in particular, we support additional disclosure of GHG information for certain funds as discussed below. As noted in the proposing release, “The current lack of consistent, comparable, and decision-useful data makes it difficult for investors to make better informed investment decisions that are in line with their ESG investment goals and to assess any GHG-related claims a fund has made.”<sup>12</sup> We have concerns, however, about the proposed applicability of these disclosures, their scope, and their operability.

#### Applicability

Investors are focusing on GHG emissions data as a quantifiable method of comparing organizations; the proposal highlights that this data would provide “consistent and reasonably comparative quantitative information regarding the GHG emissions associated with those funds’ portfolios.”<sup>13</sup> We agree that GHG metrics provide a valuable point of comparison in circumstances when GHG data is incorporated in an ESG-Focused Fund’s strategy.

We believe, however, that the requirement as written may inadvertently sweep in funds beyond its target, diminishing the usefulness of the information. Specifically, the proposal would require GHG emissions disclosures for any ESG-Focused Fund that considers environmental factors as part of its investment strategy unless “it affirmatively states in the ‘ESG Strategy Overview’ table in the fund’s prospectus that it does not consider issuers’ GHG emissions as part of its investment strategy.”<sup>14</sup> A disclosure requirement focused on what a filer does *not* do suggests that it would be unusual for a filer to omit consideration of

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<sup>9</sup> SEC proposed ESG disclosures rule, pages 323-324 and 339

<sup>10</sup> *Ibid.*, page 83

<sup>11</sup> *Ibid.*, pages 323 and 339

<sup>12</sup> *Ibid.*, page 87

<sup>13</sup> *Ibid.*, page 90

<sup>14</sup> *Ibid.*, page 89



emissions if environmental factors are part of its investment strategy. There are numerous environmental objectives beyond emissions, however, including reducing water usage, eliminating excess waste and packaging, and restoring wetlands, to name a few examples.

We recommend, therefore, that the Commission modify the proposal to require funds for which emissions are a significant or main consideration in their investment strategy to state such in the ESG Strategy Overview Table. We believe that the proposed GHG disclosures should apply to this subset of funds, subject to our proposed modifications below.

#### Scope of disclosure

The proposal would require an in-scope ESG-Focused Fund to disclose the carbon footprint and the weighted average carbon intensity (WACI) of its fund's portfolio in the MDPF or MD&A section of its annual report, as applicable. These calculations would be based on the scope 1 and scope 2 emissions of the portfolio companies. A fund would also report the carbon footprint, by sector, for scope 3 emissions data, to the extent scope 3 data is reported by its portfolio companies. As written, a fund that considers *any* emissions-related factors in its investment strategy — even one limited to reducing scope 1 emissions for a particular sector or maintaining scope 1 carbon intensity below a stated threshold — would be required to provide the full suite of GHG disclosures. This may result in disclosures that are not relevant to the investment strategy of a particular fund, perhaps misleading investors as to how the data presented is used or the scope of the fund's strategy. Further, these specific metrics may not be meaningful, depending on a fund's strategy (see "Metrics and methodology" section). Instead, we recommend that the Commission align the GHG disclosures to the fund's GHG strategy, as disclosed in the ESG Strategy Overview Table. For example, a fund that is focused on reducing scope 1 emissions from emissions-intensive sectors would be required to disclose which sectors are targeted for reduction and the related scope 1 metrics that it considers in making investment decisions (e.g., absolute emissions, carbon intensity).

Further, with respect to scope 3 emissions specifically, we agree with the Commission that scope 3 data would be difficult for a fund to reliably estimate given the nature of these emissions. We are, however, concerned that a piecemeal requirement to disclose scope 3 information would be confusing or potentially misleading — particularly if the scope 3 information available is limited or otherwise not representative of the portfolio. Therefore, we are concerned with a broad requirement for all funds that consider GHG emissions as part of their strategy to disclose scope 3 data. In lieu of this requirement, and consistent with our overall GHG recommendation above, we believe that scope 3 disclosures should be required for a fund that incorporates a scope 3 goal or target in its investment strategy, with appropriate disclosure about the limitations of the information presented. And, in such cases, we believe a fund should disclose how they are measuring progress against its goal, if the related data is unavailable. Alternatively, we recommend the Commission consider the phased approach to scope 3 emissions adopted by the Partnership for Carbon Accounting Financials (PCAF), initially only requiring scope 3 reporting for certain select sectors.<sup>15</sup>

#### Data quality

Due to the disparate nature of existing GHG disclosures — which may be improved by the Commission's climate-related disclosures proposal but not fully rectified — we agree that the proposed data hierarchy would be helpful for both the preparers and users of the GHG emissions metrics. We also support additional disclosures around the use of data lower in the data hierarchy, recognizing that even publicly available information may lack reliability without uniform standards and assurance. In addition to GHG emissions information, a fund would need the enterprise value (equity plus total debt) and total revenue

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<sup>15</sup> PCAF, [The Global GHG Accounting and Reporting Standard for the Financial Industry](#), page 48-49





for each portfolio company in order to calculate the proposed disclosure of carbon footprint and WACI. Reporting of greenhouse gases continues to evolve, and estimating such amounts without detailed information would be inherently difficult; estimating the other information required for the metrics would also be challenging.

We recommend that the Commission consider supplementing the data hierarchy disclosures with voluntary disclosure of the data quality scoring per asset class proposed by PCAF in its publication, “The Global GHG Accounting and Reporting Standard for the Financial Industry.”<sup>16</sup> The data scoring would provide enhanced transparency about data quality, encouraging improvement over time.

### Metrics and methodology

The proposal would require an in-scope fund to disclose the carbon footprint and WACI for scope 1 and scope 2 emissions for its portfolio companies. While this requirement would provide comparability across funds, it may result in disclosure of information that is not meaningful to investors, as these specific metrics may not be relevant, depending on a fund’s investment strategy (see “Scope of disclosure” section). We recommend that the Commission consider a less prescriptive requirement by providing a list of alternative metrics, for example, incorporating metrics proposed by the Task Force on Climate-related Financial Disclosures (TCFD) or PCAF.<sup>17</sup> A fund could describe its GHG emissions investment strategy in its prospectus, and disclose one or more metrics that align with this strategy. The fund would then be required to report on those metrics in its annual report.

In addition, preparing these metrics would require the aggregation of emissions across issuers — including both reported and estimated amounts — and would not consider that these amounts may be generated using disparate methodologies. Portfolio companies may use inconsistent organizational boundaries, policies, methodologies, lag periods, or treatment of acquisitions and dispositions; these individual differences would be compounded when combined with emissions estimated by the fund. We believe this underscores the importance of the Commission’s proposed organizational boundaries consistent with the financial statements in its broader climate-related disclosures proposal. It also highlights the need to coalesce around common methodology quickly, which would improve the usefulness and comparability of emissions data. While we understand the need for flexibility today in the infancy of mandated emissions disclosures, we believe the rules should evolve as common standards and practices evolve, with future amendments made to enhance the consistency of reported information, which may include leveraging PCAF more fully as it, too, continues to evolve.

### ***Inline XBRL data tagging***

The Commission has proposed that all ESG-related registration statement and fund annual report disclosures be filed in Inline XBRL. We agree that structured data enhances the availability and usefulness of information for investors and other market participants by making it more easily accessible for purposes of aggregation, comparison, and other filtering. We recommend, however, that the Commission allow a delay of the tagging requirements to provide time to develop related taxonomies.

## **B. Adviser brochure**

The proposed rules would require investment advisers that consider ESG factors in providing investment advice or recommendations to provide additional ESG-related disclosure in the adviser brochure. Required disclosures would include the adviser’s approach to ESG investing (e.g., employment of an

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<sup>16</sup> PCAF, *Global GHG Accounting and Reporting Standard*, page 53-56

<sup>17</sup> TCFD, [Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#), pages 51-55, and PCAF, *Global GHG Accounting and Reporting Standard*, pages 22-23



inclusionary or exclusionary screen, specific ESG-impacts the adviser seeks to achieve, engagement with issuers to advance ESG goals, proxy voting policies). We agree that this additional information would be useful for investors in evaluating whether the objectives of a specific investment adviser align with their own investment objectives.

We previously outlined our concerns with respect to the lack of definition of “ESG” and the need for clarification of the definitions of Integration Funds, ESG-Focused Funds, and Impact Funds (see Section A). We believe the same concerns apply with respect to the proposed disclosures for investment advisers and recommend changes as previously proposed.

#### **E. Compliance dates**

Although some funds and advisers may be accumulating certain of the data required for compliance, the proposed depth and breadth of the disclosures will require substantial incremental effort and the implementation of new systems, processes, and controls. We agree that the SEC’s phased approach to the effective dates — with initial disclosure required in a prospectus and certain Forms followed by disclosure in the annual report and on Form N-CSR — would provide funds and advisers with additional time to prepare for the detailed annual disclosures.

We recommend, however, that the Commission evaluate the proposed timing of the adoption of this significant rulemaking, particularly in the context of its recent rulemaking agenda focused on the asset and wealth management industry, including in the areas of cybersecurity, private funds, and money market funds, among others. The volume of proposed changes may be difficult to manage in a compressed period; staged adoption dates would allow preparers to appropriately focus on the new rules and provide time to produce information of the quality commensurate with that desired in an SEC filing.

##### *Coordination with other proposed climate rules*

To prepare the proposed disclosures, a fund would be reliant on the provision of certain information — including emissions data — from its portfolio companies. Although there is a proliferation of voluntary reporting, one of the objectives of the SEC’s recent climate-related disclosures proposal is “to provide consistent, comparable, and reliable—and therefore decision-useful—information to investors.”<sup>18</sup> Therefore, we recommend that the Commission sequence the timing of the proposal to follow the initial effective dates of its climate-related disclosures proposal. Although only large accelerated filers would be subject to the climate-related disclosures in the first year, as proposed, coordination would allow funds time to implement internal controls as well as identify sources for externally-provided data.

##### *Establishment of a climate disclosure implementation group*

In order to achieve the consistent and comparable disclosures intended by the proposed rules, the provisions need to be interpreted similarly by all preparers. As with any new rule or standard, there is a risk that diversity in practice develops based on differences in how broad principles and areas requiring judgment are interpreted. In our response to the SEC’s climate-related disclosures proposal, we advocated for the formation of a climate disclosure implementation group (CDIG), a transparent, inclusive entity under the leadership of the SEC staff, to support quality in disclosures through the timely identification, discussion, and resolution of application matters both prior to and after the effective date of the proposed rules. As described in our [June 17 response letter](#), we believe this group — with representatives drawn from a cross section of the SEC’s constituencies, formal due process, and publicly reported interpretations

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<sup>18</sup> SEC proposed rule, [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#), page 7



— would improve disclosure comparability and usefulness, while reducing the cost of the compliance process.

We believe that formation of a disclosure implementation group is equally important to the success of the proposed rule. Whether combined in one umbrella organization, or organized as a separate group, specific focus on implementation issues related to this proposal would benefit investment advisers and investment companies as well as fund investors. Diversity in practice could dilute the effectiveness of the rules and the usefulness of the resulting disclosures. Further, global ESG reporting is evolving rapidly as a result of the ongoing efforts of standard setters, regulators, and other organizations — such as the Greenhouse Gas Protocol and the Partnership for Carbon Accounting Financials. The implementation group could support and advise the Commission and its staff to help ensure the rules keep current with US and global developments in climate reporting.

*Disclosure in the prospectus*

As proposed, the disclosures in the prospectus would apply one year following the effective date. We note, however, that closed-end funds that rely on rule 8b-16(b) of the Investment Company Act of 1940 do not update their prospectuses on an annual basis. We believe that the Commission should clarify whether and when such funds are required to update their prospectuses for the new proposed disclosures.