PRI Principles for Responsible Investment

INVESTOR BRIEFING

SIGNATORY COMMENTS ON THE SEC PROPOSED RULE "ENHANCED DISCLOSURES BY CERTAIN INVESTMENT ADVISERS AND INVESTMENT COMPANIES ABOUT ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INVESTMENT PRACTICES"

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

In January 2023, the PRI reviewed the comment letters of each of the 30 PRI signatories who submitted views to the U.S. Securities and Exchange Commission (SEC or the Commission) on the proposed rule "Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices," (the Proposed Rule or the Proposal) with the goal to understand PRI signatory perspectives on the Proposal, specifically the three proposed fund categories.[1] The 30 comment letters from PRI signatories represent $26 trillion in AUM.

This comment analysis found that all PRI signatories who submitted a comment letter to the SEC generally expressed broad support for the underlying goals of the Proposed Rule. However, many also explored a variety of ways that the Proposal could be improved to better support market practice.

This analysis does not provide views on signatory comments and is intended only to provide a summary and comparison of how a subset of PRI signatories interpret the proposed fund categories and highlight areas of consideration for the Commission to improve the Proposed Rule. The PRI also submitted comments to the SEC after substantial consultation with a broad range of signatories, many of whom are not reflected in this analysis but whose views are partially captured in our comment. The PRI will seek to publish a follow-on report consisting of interviews with market participants to gain further insight into how the Proposed Rule and the three categories may or may not align with current market practice.

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[1] U.S. Securities and Exchange Commission, *Proposing Release: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf.

KEY FINDINGS

The PRI reviewed all 30 comment letters submitted to the SEC by PRI signatories, consisting of 25 asset managers and 5 service providers representing $26 trillion in AUM.

- **All commenters support the main goal of the Proposed Rule to address greenwashing and improve market transparency and want the SEC to move forward with implementation of a final rule with modifications.**

Definitions and Terminology

- Certain terms used within the Proposal require increased clarity. 15 commenting signatories desire additional clarity around at least one term relevant for the categorization of funds, including:
  - “Consider”
  - “Significant or main consideration”
  - “Determinative”

Integration Funds

- 12 commenting signatories recommend that the Integration Fund category be eliminated altogether.
- 14 commenting signatories state that the Integration Fund category is too broad.
- 15 commenting signatories find that the Integration Fund category could confuse retail investors.

ESG-Focused Funds

- 10 commenting signatories believe stewardship activities, such as proxy voting and engagement, are part of their fiduciary duty and carrying out those practices alone regarding ESG issues should not necessarily classify a fund under the ESG-Focused category.
- 3 commenting signatories mentioned that the ESG-Focused Fund category was too broad.

Impact Funds

- The Impact Fund category received less definitive commentary, with only 3 commenting signatories indicating that they support the elimination of this category.
- Commenters were split on whether the Impact Fund category is too broad or too narrow, with 6 stating it is too broad, and 4 stating the opposite.

General Comments

- 11 commenting signatories flagged that the Proposed Rule may increase greenwashing, if not amended.
- 5 commenting signatories raised concerns that the Proposed Rule could discourage the consideration of ESG factors.

Our review showed widespread support for the intended goal of the Proposed Rule. PRI signatories highlight several key areas for improvement and signal a willingness to help make the Proposal fit for purpose. The SEC should consider these areas for improvement and finalize a Proposed Rule.

SUMMARY: COMMENT ANALYSIS

The PRI analyzed the 30 comments submitted by PRI signatories, representing a total $26 trillion in AUM, to the SEC on the proposed rule “Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices.”

PRI signatories represent a significant portion of financial services companies that submitted comments on the Proposed Rule. Our analysis looks to identify agreement or divergence among PRI signatory comments and provide insight on views of the Proposed Rule by financial services companies committed to responsible investment.

For the purpose of this analysis, we focused on the three proposed categories of funds as this was a topic of significant interest to PRI signatories, and since the proposed categorization is critical to the practical implementation of the Proposal.

The three categories are defined within the Proposal as follows:

- “Integration Fund” is 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.”
- “ESG-Focused Fund” is a Fund “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.”
- “Impact Fund” is an ESG-Focused Fund “that seeks to achieve a specific ESG impact or impacts.”[2]

All 30 commenters support the main goal of the Proposed Rule to address greenwashing and improve market transparency and want the SEC to move forward with implementation of a final rule, granted that modifications and additional clarity are provided.

[2] U.S. Securities and Exchange Commission, Proposing Release: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (May 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf.

CLARITY ON KEY TERMS

As addressed by the Commission in its Proposal, there are many differences between how funds and investors define ESG-related investment practices. There is also currently a lack of consistent information for investors wishing to compare funds' consideration of ESG factors. The Proposed Rule sets out to "promote consistent, comparable, and reliable information for investors" related to ESG.[3]

In order for the Proposed Rule to be consistently implemented by investment companies, and thereby create comparable and reliable information for investors, the Commission should seek to further clarify definitions of the three categories of funds proposed.

PRI analysis of the 30 signatory comment letters showed that **15 commenting signatories desire additional clarity around at least one term** relevant for the categorization of funds. Such terms include:

- "Consider"
- "Significant or main consideration"
- "Determinative"

For example, PRI signatories note:

"... an adviser may "consider" an ESG factor for an investment in its fund without an explicit intention to do so, because an E, S, or G risk (e.g., worker health and safety) is deemed relevant when evaluating a prospective investment. However, this evaluation may occur as a result of the manager's traditional due diligence process, and not promulgated by way of formal ESG-related practices. Based on this fact pattern, the investment vehicle could be improperly categorized as an "Integration Fund" pursuant to the Proposed Rule."[4] – Silver Regulatory Associates LLC

"Given the various ways and degrees that a fund can use ESG factors, it is not clear what would qualify as a "significant" or "main" consideration. We believe that additional clarification or criteria would be beneficial. For example, is a strategy that applies a single exclusionary screen on a given industry, but does not otherwise incorporate ESG into the investment process, considered to be using ESG as a significant or main consideration?"[5] – Invesco Ltd.

"How would a manager's compliance department monitor for "determinative" factors? Would portfolio managers have to maintain records of the precise justification for each investment decision, including a record of precisely which straw breaks the proverbial camel's back on a particular decision? We submit that this exercise would not be a valuable one, and suggest that the proposed definition would work equally well without this novel element."[6] – Putnam Investments

These comments illustrate two points. First, commenters question whether the intent and reasoning behind the consideration of ESG factors matter in the determination of the fund category. Second, the question is raised of whether there are minimum levels of consideration of ESG factors that would qualify as "significant or main consideration" in practice.

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[3] U.S. Securities and Exchange Commission, *Fact Sheet: ESG Disclosures for Investment Advisers and Investment Companies* (May 2022), available at https://www.sec.gov/files/ia-6034-fact-sheet.pdf, pg. 1.
[4] Silver Regulatory Associates LLC, *RE: SEC File No. S7-17-22; Environmental, Social, and Governance Disclosures for Investment Advisers and Investment Companies* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20138429-308437.pdf, pg. 2.
[5] Invesco Ltd., *Re: File No. S7-17-22 Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137578-308010.pdf, pg. 9.
[6] Putnam Investments, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) and Investment Company Names (File No. S7-16-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136197-307174.pdf, pg. 4.

The above-mentioned terms are critical for the proposed disclosure regime to be implemented in a consistent manner. Therefore**, the SEC should seek to clarify these terms in a final rulemaking to avoid investor confusion when it comes to implementation.**

INTEGRATION FUNDS

In the Proposed Rule, the Integration Fund category includes funds that "consider one or more ESG factors alongside other, non-ESG factors…but are generally not dispositive compared to other factors when selecting or excluding a particular investment."[7] As previously stated, some PRI signatories have expressed concern about the clarity of this definition. Beyond the lack of clarity, PRI signatories raised several additional areas where the Proposed Rule could be improved.

Is the Integration Fund Category Necessary?

Aside from a lack of clarity, **12 commenting signatories suggest that the Integration Fund category be eliminated altogether, while a separate 9 support the category with modifications.** Those stating the category should be eliminated largely suggest that the category is either too broad, or that the disclosure requirements would be too burdensome relative to the level of ESG consideration of Integration Funds.

Views on the Integration Fund category include, for example:

"We believe that the existing principles of fair disclosure set forth by the Commission are sufficient to address the types of funds that may fall within the Integration Fund category and suggest that the Integration Fund category be removed."[8] – State Street Global Advisors

"Morningstar recommends that the Commission eliminate the ESG-Integration category for disclosure purposes because, as proposed, it would encompass too many funds to be helpful to investors and impose an unnecessary burden of disclosure on funds. At most, these funds should disclose simply that ESG is a supporting consideration, but mandating further disclosure is not beneficial. Disclosure may even be harmful, as it could mislead investors by indicating that a fund has a more significant commitment to sustainable investing than it has. Under the Proposed Rule, greenwashing may worsen, as funds that do not necessarily consider themselves to "integrate" ESG factors may nonetheless be required to disclose such considerations as if they do. To avoid these risks, Morningstar recommends that the Commission eliminate the ESG-Integration category."[9] – Morningstar Inc.

"While it is true that the current definition of Integration Funds may capture a significant number of funds, we believe that the proposed disclosure framework strikes an appropriate balance. It would allow funds to calibrate their ESG integration disclosures to their unique practices, while also allowing investors to compare these practices easily across Integration Funds."[10] – T. Rowe Price

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[7] U.S. Securities and Exchange Commission, *Proposing Release: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf, pg. 14.
[8] State Street Global Advisors, *Re: Enhanced disclosures by certain investment advisers and investment companies about environmental, social and governance investment practices [File No. S7-17-22]* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136235-307247.pdf, pg. 3.
[9] Morningstar Inc., *RE: Release No. 33-11068; 34-94985; IA-6034; IC-34594; File No. S7-17-22; RIN 3235-AM96 Proposed Rule: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137484-307965.pdf, pg. 3.
[10] T. Rowe Price, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136430-307470.pdf, pg. 3.

Given the relatively large number of PRI signatories that stated the Integration Fund category should be eliminated, **we encourage the SEC to re-evaluate the utility and practicability of the proposed category.**

Over-inclusion of Funds

14 commenting signatories state that the Integration Fund category is too broad and would include too many funds in practice. As discussed in more detail below, the most significant reason provided is the consideration of governance factors, which is standard practice among most funds.

"In our view, this definition is overly broad and, as written, would include a significant majority of actively managed funds available in the market today. As discussed above, Putnam and many other active asset managers include consideration of ESG factors as part of their fundamental research approach and investment decision making process. We believe that certain environmental, social, and governance factors are relevant and material to long-term business fundamentals and, therefore, important to all investors."[11] – Putnam Investments

Retail Investor Confusion

Another concern raised is that, in practice, Integration Funds could lead to confusion among retail investors. **15 of the 30 commenting signatories raise the point that the fund categories and related ESG disclosure could put an emphasis on ESG consideration that would confuse retail investors.** The definition of an Integration Fund states that the fund manager considered one or more ESG factors when deciding to invest, but that such factors did not outweigh other, non-ESG factors. By requiring a disclosure of ESG factors considered, retail investors may not understand this distinction and may assume that such factors were considered in a more important manner than other, non-ESG factors.

"A retail investor may be confused by the term 'integration' itself and perceive that ESG factors are integrated into the investment decision-making via the categorization of the fund, even though ESG factors have no bearing on the fund construction or asset selection."[12] – Bloomberg L.P.

ESG-FOCUSED FUNDS

Reporting on Engagement

The largest concern raised by PRI signatories related to the proposed ESG-Focused Fund category is the inclusion of "engagement with management of the issuers in which the fund or adviser invests through proxy voting or direct management" as a qualifier.[13] **10 comments highlighted this concern.** Many institutional investors believe engagement activities are an inherent aspect of their fiduciary duty, and therefore **engagement alone, including engagement focusing on an ESG-related issue, should not be sufficient to place a fund in the ESG-Focused Fund category.**

"We view proxy voting as a fiduciary duty and engagement as an ownership duty; they are not investment strategies in and of themselves. Typically, proxy voting or engagement alone are not tools

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[11] Putnam Investments, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) and Investment Company Names (File No. S7-16-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136197-307174.pdf, pg. 3.
[12] Bloomberg L.P., *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices Release Nos. 33-11068; 34-94985 / File No. S7-17-22* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136640-307520.pdf, pg. 3.
[13] U.S. Securities and Exchange Commission, *Proposing Release: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf, pg. 15.

for selecting securities, although they may be one input among many into security selection; indeed, they are most commonly implemented as tools for fulfilling ownership duties post-security selection. Therefore, we do not believe that these two activities alone should be viable pathways to a fund classifying as an 'ESG Focused Fund'. We also observe that many funds use narrative about engagement activities (where minimal impact is actually achieved or evident) as a greenwashing practice today. If the Commission allows 'ESG-related engagement' to be a pathway to the ESG Focused category then the rule will set a low bar for many funds to enter this category."[14] *– Calvert Research and Management*

"We believe it would be inconsistent with the objectives of the proposal to permit a fund to classify itself as an ESG-focused fund if the fund maintained an ESG voting and engagement program (including a robust program) without a corresponding ESG investment strategy/securities selection process. For example, one fund that simply proactively proxy votes on ESG issues would find itself in the same classification as a strategy that has robust investment selection criteria in addition to thoughtful voting and significant engagement activities. Similarly, the engagement or proxy voting disclosure should not be in the same lines as items related to investment strategies."[15] *– Mirova US LLC*

Commenting PRI signatories point to the fact that engagement does not necessarily factor into security selection and wonder whether engagement and proxy voting fall into the same category as the investment strategies listed in the proposed disclosure table. Additionally, they suggest that there are different levels of robustness of ESG consideration that engagement can fall under. Here, the intent of the engagement strategy seems to be important to the categorization of the fund. Whether or not the SEC decides to amend this section of the rule, it should provide clarity on these questions.

Consensus on Utility of ESG-Focused Fund Category

Only 3 commenting signatories mentioned that the ESG-Focused Fund category was too broad. The majority of the comment letters analyzed support the utility and practicality of the fund category overall.

IMPACT FUNDS

Is the Impact Fund Category Necessary?

The Impact Fund category appears less controversial than the other proposed categories, with only **3 commenting signatories indicating that they believe the Impact Fund category should be eliminated**.

"Invesco believes that a separate category for Impact Funds is not necessary, as impact investing could be treated as one of the strategies within the ESG-Focused Fund category. Invesco also believes that the definition of an impact strategy should either be limited to direct investing or utilize the definition set forth by the Global Impact Investing Network (GIIN)."[16] *– Invesco Ltd.*

[14] Calvert Research and Management, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137473-307957.pdf, pg. 2.
[15] Mirova US LLC, *Re: Comments on Proposed Rules regarding Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices and Investment Company Names file numbers S7-17-22 and S7-16-22 respectively* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136167-307138.pdf, pg. 6.
[16] Invesco Ltd., *Re: File No. S7-17-22 Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137578-308010.pdf, pg. 2.

While overall fewer comment letters analyzed discuss the Impact Fund category and present strong or consolidated views, this should not be assumed to equate to an endorsement of the Proposed Rule as is. As the PRI sees in its work globally, financial market understanding of, and coalescence around, "impact" as a broad category of considerations lags behind other ESG-related considerations. Underrepresentation of comments on this section of the Proposal may also represent a lack of formalized positions – those that are strongly held enough to be submitted formally to the Commission – from market participants. As such, the Commission should consider that its decisions made on this category will greatly influence the direction of growth of ESG considerations of "impact" in the US and across global markets.

Broadness of Category

Commenters **were split on whether the Impact Fund category is too broad or too narrow**, with 6 stating it is too broad, and 4 stating the opposite. Those who view the category as too broad emphasize that the intent of one's ESG strategy is important for classification as an Impact Fund:

"As currently proposed, certain funds that would consider themselves to be ESG-Focused Funds may inadvertently fall into the Impact Fund category and be subject to its additional disclosure requirements. We believe the Impact Fund category should instead encompass a small group of funds, with funds deliberately choosing to be included in the category. Accordingly, we suggest revising the definition for Impact Fund to be "an ESG-Focused Fund that has an investment objective that references a measurable ESG-related impact or outcome."[17] – Fidelity Investments

Comparatively, the signatories that view the Impact Fund as too narrow state that some of the disclosure requirements limit the type of funds that would fall into this category. It is the concern of these signatories that requiring disclosure of specific outcomes with time bound horizons may deter investors from utilizing the Impact Fund category, and therefore impact strategies and considerations.

"We agree with the Commission's view that an "Impact Fund" subcategory of ESG-Focused Funds will be helpful and beneficial to investors in their consideration of ESG funds. However, we believe the proposal for "Impact Fund" should also include funds with broader intentionality (i.e., promotion of universal human dignity) in its investment process rather than its current limitation of achieving specific outcome of key performance indicators with measurement and time bound targets (i.e., reduction of greenhouse gas emissions by 10% in the next five years)."[18] – Domini Impact Investments

Given that the division of views—and lack of comments—on this topic could represent the underdevelopment of market practice rather than support for the Proposal, we recommend the Commission further engage market experts in this area, including those like the Global Impact Investing Network (GIIN), which was not referenced in the Proposed Rule, to further ensure these provisions are aligned with current market practice and fit for purpose in a rapidly evolving market landscape.

The Commission should also review the "Sustainability Disclosure Requirements" proposed by the UK's Financial Conduct Authority, and their consideration of fund and investor purpose in designing a similar disclosure, and labeling, regime.[19]

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[17] Fidelity Investments, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices: File Number S7-17-22* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137659-308068.pdf, pg. 14.
[18] Domini Impact Investments LLC, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136243-307275.pdf, pg. 14.
[19] The PRI's view on the FCA Sustainability Disclosure Requirements and Investment Labels is available at: Principles for Responsible Investment, **Consultation Response: FCA Sustainability Disclosure Requirements and Investment Labels** (January 2023), available at pri_fca_sdr_consultation_response_jan_2023_564291.pdf (dwtyzx6upklss.cloudfront.net).

GENERAL COMMENTS

Greenwashing Concerns

In the Proposed Rule, the SEC states that the current lack of consistent disclosure "may lead to potential greenwashing and compromise the reliability of sustainable investment product disclosures."[20] With this argument in mind, **11 commenting signatories flagged that the Proposal may increase greenwashing, if not amended.**

One reason for the potential increase in greenwashing raised by PRI signatories relates to the Integration Fund category and its broad nature:

"We specifically do not consider funds that integrate ESG factors into their investment process as ESG products. Non-ESG funds have different investment guidelines and goals –they do not have an ESG investment objective or principal strategy, and therefore the ESG factors, while informative, are not necessarily material to the investment process. Moreover, the current fund disclosure framework for funds does not mandate prescriptive disclosures for investment processes and we do not believe ESG integration should be singled out, particularly when it is not the determinative factor, as recognized by the SEC. Formally labelling funds as "ESG Integration Funds" and requiring prominent disclosure could mislead investors and raise greenwashing concerns."[21] – BlackRock

"Furthermore, if investors view Integration Funds in a positive light, then this could lead to greenwashing, as funds will be incentivized to do the bare minimum to be categorized as an Integration Fund. If a fund that applies a single governance-related exclusionary screen can call itself an Integration Fund, it would deprive the term of its meaning and utility to investors."[22] – Dimensional Fund Advisors

The PRI suggests the SEC consider what changes may be necessary to minimize this concern. The PRI has advocated for eliminating the Integration Fund category, but as there is not consensus on this major consideration among PRI signatories, the Commission could also seek to narrow the category or to evaluate whether there are ways to minimize the subjective nature of self-selecting funds' categories.

Governance Factors

11 commenting signatories raised questions about the role of governance factors in determining the fund level category. Signatory comments state that the consideration of governance factors, especially related to proxy voting and engagement, is standard practice and many do not believe these policies or actions alone should determine their level of ESG consideration. The Commission could address this concern by focusing the engagement disclosure on the quality of engagement, not the quantity of meetings.[23]

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[20] U.S. Securities and Exchange Commission, *Proposing Release: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf, pg. 87.

[21] BlackRock, Inc., *RE: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices (File Number S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137500-307978.pdf, pg. 5.

[22] Dimensional Fund Advisors LP, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, File No. S7-17-22* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136192-307167.pdf, pg. 2.

[23] Principles for Responsible Investment, Consultation Response: Securities and Exchange Commission File No. S7-17-22: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental. Social, and Governance Investment Practices (August 2022), available at https://dwtyzx6upklss.cloudfront.net/Uploads/b/o/x/prifinaladviserfunddisclosurerule_973433.pdf. See the PRI's recommendations on engagement disclosure on pages 21-22.

"As the bedrock of engagement is governance, which is the "G" of "ESG", all engagement has an ESG component and indeed nearly 90% of our engagements in 2021 covered a governance topic."[24] *– BlackRock*

"Fidelity urges the SEC to clarify in the final rule that consideration of "governance" as it relates to financial performance and other traditional economic standards should not cause a fund – that would not otherwise consider itself to be an ESG fund – to be labeled an ESG Focused-Fund. Fidelity does not believe that this evaluation of "governance" in the normal course is what investors reasonably think of in the context of ESG or is what the Commission intended to capture in the Proposed Rule."[25] *– Fidelity Investments*

Discouraging ESG

Only 5 commenting signatories raised concerns that the Proposed Rule could discourage the consideration of ESG factors. Those who do raise concerns state that the Proposed Rule may encourage funds to seek a category with less disclosure requirements due to concerns about increased reporting or enforcement.

"Further, more funds may self-classify as an Integration Fund because of the more stringent disclosure burdens associated with an ESG-Focused Fund or Impact Fund. Nasdaq believes that this risk is compounded by the lack of safe harbors from liability for ESG-Focused Funds and Impact Funds disclosing GHG emissions, specifically relating to the estimated Scope 1 and Scope 2 emissions, as further discussed below. Accordingly, the ESG Fund Disclosures Proposal could inadvertently discourage any significant consideration of ESG factors in a fund's investment strategy."[26] *- Nasdaq*

"The Commission should make clear that the intention of the proposal is not to restrict or in any way narrow consideration of ESG factors to a certain segment of market participants. ESG-related factors have implications for all funds and all asset classes, and a regulatory regime that discourages ESG consideration or classifies it as separate duties would be detrimental to financial markets, society and the economy. Rather, all funds and advisers should have a process in place to systematically consider ESG-related factors and disclose how they do so. Such disclosure would allow the Commission and the market to compare those disclosures with marketing materials to ensure funds and advisers are not overstating their ESG-related activities."[27] *– Principles for Responsible Investment*

As included above, the PRI raised a similar possibility in our own comment letter to the Commission, which further outlined a number of points raised by signatories in their comments, such as issues related to terminology, stewardship and investor intent.

It is important to highlight that all 30 commenters included in this analysis expressed support for the goal of the Proposed Rule to address greenwashing and improve market transparency, while also recommending the SEC consider certain modifications, provide additional clarity and consider sequencing with other existing SEC proposed rules, before moving forward with a final rulemaking.

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[24] BlackRock, Inc., *RE: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices (File Number S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137500-307978.pdf, pg. 3.

[25] Fidelity Investments, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices: File Number S7-17-22* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137659-308068.pdf, pg. 6.

[26] Nasdaq, Inc., *Re: File No. S7-17-22 & File No. S7-16-22*, available at https://www.sec.gov/comments/s7-16-22/s71622-20137529-308001.pdf, pg. 5.

[27] Principles for Responsible Investment, Consultation Response: Securities and Exchange Commission File No. S7-17-22: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental. Social, and Governance Investment Practices (August 2022), available at https://dwtyzx6upklss.cloudfront.net/Uploads/b/o/x/prifinaladviserfunddisclosurerule_973433.pdf, pg. 10.

APPENDIX

The following is the full list of public comment letters reviewed and analyzed for this report, representing all comment letters submitted by PRI signatories on the Proposed Rule.

- BlackRock, Inc., RE: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices (File Number S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137500-307978.pdf
- Bloomberg L.P., Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices Release Nos. 33-11068; 34-94985 / File No. S7-17-22 (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136640-307520.pdf
- Boston Trust Walden, Re: File No: S7-17-22 Environmental, Social, and Governance Disclosures for Investment Advisers and Investment Companies (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136158-306927.pdf
- Calvert Research and Management, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137473-307957.pdf
- Capital Research and Management Company, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137682-308080.pdf
- Dimensional Fund Advisors LP, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, File No. S7-17-22* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136192-307167.pdf
- Domini Impact Investments LLC, *Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22)* (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136243-307275.pdf
- Federated Hermes, Inc., Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File Number S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136206-307208.pdf
- Fidelity Investments, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices: File Number S7-17-22 (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137659-308068.pdf
- Franklin Templeton, Inc., File No. S7-17-22 Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136398-307434.pdf
- Glass, Lewis and Co., LLC, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices,

Release No. 34-94985 (May 25, 2002) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136436-307475.pdf

- Humankind Investments, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136452-307478.pdf
- Impax Asset Management, Comments on File Number S7-17-22, Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, and on File No. S7-16-22, Investment Company Names (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20138305-308363.pdf
- Income Research & Management, RE: File No. S7-17-22 Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137144-307758.pdf
- Invesco Ltd., Re: File No. S7-17-22 Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137578-308010.pdf
- Jonathan Rose Companies, RE: ESG Disclosures for Investment Advisors and Investment Companies" (File No. S?-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136100-306852.pdf
- J.P. Morgan Asset Management, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136187-307162.pdf
- Mirova US LLC, Re: Comments on Proposed Rules regarding Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices and Investment Company Names file numbers S7-17-22 and S7-16-22 respectively (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136167-307138.pdf
- Morningstar Inc., RE: Release No. 33-11068; 34-94985; IA-6034; IC-34594; File No. S7-17-22; RIN 3235-AM96 Proposed Rule: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137484-307965.pdf
- Nasdaq, Inc., Re: File No. S7-17-22 & File No. S7-16-22, available at https://www.sec.gov/comments/s7-16-22/s71622-20137529-308001.pdf
- Neuberger Berman Group LLC, Re: File No. S7-17-22: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20138306-308364.pdf
- Parnassus Investments, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136135-306881.pdf
- Putnam Investments, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) and Investment Company Names (File No. S7-16-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136197-307174.pdf

- Riverwater Partners LLC, RE: File Nos. S7-11-22 and S7-16-22 (August 2022), available at https://www.sec.gov/comments/s7-11-22/s71122-20136172-307143.pdf
- SEI Investments Management Corporation, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136248-307281.pdf
- Sierra Club, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices, File No. S7-17-22 ("ESG Disclosure Proposal"); Investment Company Names, File No. S7-17-22 ("Fund Names Proposal") (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20138070-308284.pdf
- Silver Regulatory Associates LLC, RE: SEC File No. S7-17-22; Environmental, Social, and Governance Disclosures for Investment Advisers and Investment Companies (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20138429-308437.pdf
- State Street Global Advisors, Re: Enhanced disclosures by certain investment advisers and investment companies about environmental, social and governance investment practices [File No. S7-17-22] (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136235-307247.pdf
- T. Rowe Price, Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (File No. S7-17-22) (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20136430-307470.pdf
- Vert Asset Management, Re: File No. S7-17-22: ESG Disclosures for Investment Advisors and Investment Companies (August 2022), available at https://www.sec.gov/comments/s7-17-22/s71722-20137751-308097.pdf