THE U.S.
IMPACT INVESTING
ALLIANCE

August 16, 2022

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

Re: File Numbers S7-16-22 and S7-17-22

To Whom It May Concern:

The U.S. Impact Investing Alliance ("the Alliance") writes to the U.S. Securities and Exchange Commission ("the Commission") regarding a pair of proposed rules - the Investment Company Names proposal and the Environmental, Social, and Governance Disclosures for Investment Advisers and Investment Companies ("the proposed rules").

The Alliance is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include high-net-worth individuals and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

The Alliance is broadly supportive of the direction of the proposed rules. If implemented properly, we believe they will help improve the reliability and comparability of environmental, social and governance ("ESG") investment products and strategies for investors. The proposed amendments to the Fund Names rule will help restore trust in fund labeling and marketing and better ensure investor expectations match the reality of investment strategies.

In turn, while we support the overall objectives of the proposed disclosure requirements, their reach is limited and will not benefit those invested in funds not covered by the proposed rule. For instance, only investors in ESG-Focused funds will have access to important information regarding ESG investing strategies, such as use of third-party indexes, investment screens and engagement with portfolio companies.

We encourage the Commission to consider expanding the proposals' scope in places and ensuring they properly align with existing concepts and definitions in the ESG and impact investing markets. In particular, we have outlined several areas for the Commission to examine carefully in drafting the final rules.

Apply "Integration Fund" Standards More Broadly

First, the Alliance encourages the Commission to apply the proposed disclosure requirements for "Integration Funds" to all registered funds. Put simply, all covered investment advisers and asset managers should be required to disclose whether and how they approach ESG, rather than holding a subset of funds to a higher standard. Investors are increasingly calling for better transparency regarding how ESG factors into how their funds are invested, driven by the growing body of evidence that many ESG factors are financially material.[1]

As such, considering ESG factors alongside traditional financial factors is becoming more and more commonplace, and therefore the "Integration Fund" label as proposed is not likely to lend more clarity to investors. Instead, introducing this category is likely to add unnecessary complexity and confusion for investors and asset managers. The Commission should therefore remove the "Integration Fund" category and instead require all registered funds to disclose in their prospectuses how ESG factors are incorporated, including what - if any - ESG factors the fund considers.

This would create greater consistency across the capital markets given that proposed corporate disclosures on ESG issues like climate and potentially human capital management will be required of all issuers. Similarly, all registered funds should be held to the same base standard in the proposed rules.

Lastly, in the final rule or future guidance, the Commission should consider how to require fund disclosures that better illuminate for investors whether an investment strategy is intended to drive positive ESG-related outcomes or is intended to improve overall market performance. Recognizing the latter would ensure the final rule addresses the growing number of fund managers who are leveraging emerging research related to systemic risk to address the specific interests of long-term, diversified investors.

Align "ESG-Focused" Category with Existing Industry Standards

In addition to removing the "Integration Fund" category and more broadly applying the accompanying disclosure requirements, the Alliance recommends refining the remaining two categories.

First, we are concerned that the label of "ESG-Focused Fund" implies a concessionary strategy, but many funds currently incorporating an ESG strategy do so in order to achieve market-rate financial returns. The Alliance would instead suggest simplifying the category from "ESG-Focused" to "ESG Fund," removing the potential implication that the fund's strategy may

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[1] Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). Available at SSRN: https://ssrn.com/abstract=2508281; McKinsey, "Five ways that ESG creates value," November 2019, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value?cid=soc-web&fbclid=IwAR3onKpp8NgbyctliHjvZHNs7HcqFUhaKamqMamTYZYE8eE4aC10BbRgm_U.

sacrifice financial returns. We believe this categorization would better communicate the Commission's aims and avoid unintentionally signifying a financial tradeoff that may complicate investment fiduciaries' considerations in fund selection.

Second, we encourage the Commission to clarify that "Impact" is not a subset of "ESG-Focused." The proposal, as written, conflates concepts within the impact investing field that have long standing and well-vetted definitions. Investing for impact - or investments made with the intention of generating positive, measurable social, economic and environmental impact alongside a financial return - differ from ESG investing strategies and should therefore not be considered a subset of the "ESG-Focused" category.

Align Climate-Related Metrics with Relevant Corporate Disclosure Requirements

Climate change poses significant and systemic risks to financial stability and the capital markets,[2] and we are generally supportive of the disclosure requirements around greenhouse gas emissions ("GHG emissions") for "Environmentally Focused Funds," given the relevance of GHG emissions as a core metric for climate-related financial risk. In alignment with our overarching recommendations, we encourage the Commission to consider applying these disclosure requirements more broadly. As mentioned previously, we believe all funds should be required to disclose their exposure to climate-related financial risks based on their underlying assets. Such information will be increasingly available to fund managers, given progress in the U.S. and globally towards requiring issuer disclosure of climate-related financial information.

The Commission should also ensure that any GHG emissions disclosure requirements align with those proposed in the "Enhancement and Standardization of Climate-Related Disclosures for Investors" rulemaking to ensure cohesion across the capital markets. For instance, for the funds where GHG emissions disclosures apply, that should extend to Scope 3 emissions disclosures, where publicly available data exists or based on reasonable estimates otherwise.

Ensure Accurate ESG Labeling of Funds with Engagement Strategies

Overall, we believe the proposed amendments to the Names Rule will help improve the accuracy with which funds are marketed to investors, including ESG funds. That said, the Commission should consider how to credit funds indicating they use engagement or proxy voting in their ESG strategies toward the 80% rule. This would better align with the proposed rule on ESG Disclosures for Investment Advisers and Investment Companies, which rightfully acknowledges that "engagement with management of the issuers in which the fund or adviser invests through proxy voting or direct engagement" can be included within ESG-Focused strategies.

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[2] Financial Stability Oversight Council, Report on Climate-Related Financial Risk, 2021, https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf

Conclusion

The Alliance appreciates the opportunity to provide comments in response to the proposed rules. We applaud the Commission's commitment to providing investors in ESG funds with more consistent and reliable information on investment selection and strategies. As explored in this letter, there are several proposed provisions where the Commission could better account for market trends and investors' information needs - such as through expanded application of certain disclosure requirements or the refinement of definitions and categories. We hope the agency will carefully consider these comments when drafting the final rule. Thank you for the opportunity to engage.

Sincerely,

Fran Seegull
President
U.S. Impact Investing Alliance