CREDIT SUISSE

Via Electronic Submission

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

Re: Request for Comments on Fund Names; File No. S7-04-20; RIN 3235-AM72

Secretary Countryman:

Credit Suisse appreciates the opportunity to provide comments in response to the Securities and Exchange Commission's (hereinafter the "SEC" or the "Commission") request for comment[1] on the framework for addressing names of registered investment companies and business development companies that are likely to mislead investors about a fund's investment and risks pursuant to section 35(d) (hereinafter, the "Names Rule") under the Investment Company Act of 1940 and the regulations promulgated thereunder.

Credit Suisse encourages the Commission's continued use of the Names Rule both as a matter of sound regulatory policy and because of its practical importance in keeping investors informed. Though Credit Suisse's comments in this letter primarily focus on the Commission's questions around environmental, social, and corporate governance (hereinafter "ESG") factors and sustainability terms, Credit Suisse appreciates the SEC's request for broader comment on the Names Rule. To that end, Credit Suisse largely supports the recommendations made by the Securities Industry and Financial Markets Association Asset Management Group ("SIFMA AMG").

Credit Suisse thanks the Commission for requesting industry input on ESG and broader sustainability issues, which the industry broadly agrees is a critical area of investment and a regulatory topic ripe for discussion. ESG-related investment solutions are strongly growing based on increased client interest in sustainability-related risks and opportunities, including but not limited to climate change, and are significantly changing the environment in which companies operate and the potential risks and returns assumed by investors.

Credit Suisse has embraced the topic of ESG from its early stages, being a signatory to the most relevant industry initiatives in the space, having offered sustainable and impact solutions since the early 2000s (e.g., microfinance, green real estate, thematic funds, etc.), and continuing to broaden the sustainable offering for asset management and wealth management clients.[2] The topic is here to stay and will become the new normal for state-of-the-art investment practices, particularly with regard to financially material ESG factors.

As the Commission is aware, the discourse around ESG disclosure and sustainable investing is an important and evolving discussion. A number of global initiatives and frameworks (both legally

[1] 85 FR 13221, available at: https://www.federalregister.gov/documents/2020/03/06/2020-04573/request-for-comments-on-fund-names.

[2] For additional information on Credit Suisse's approach to sustainable investments, please see Credit Suisse's, "Sustainable investing. Holistic approach to integrating ESG criteria," available at: https://www.credit-suisse.com/pwp/am/downloads/marketing/br_esg_capabilities_uk_csam_en.pdf, Credit Suisse's "Generating returns. Sustainably," available at: https://www.credit-suisse.com/microsites/responsibleinvesting/en.html.

binding and voluntary) have emerged to address market fragmentation in the use of ESG labels and standards in different markets. Global voluntary initiatives include, among others, the IOSCO Statement on Disclosure of ESG Matters by Issuers,[3] the FSB Task Force for Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) and the Principles for Responsible Investing (PRI). Some regulators have taken steps to introduce mandatory ESG disclosure for financial services providers and companies in the real economy. As part of its EU Sustainable Finance Action Plan, the EU Disclosure Regulation will apply from March 2021 and the EU Taxonomy Regulation is in the final stages of the legislative process. At the same time, France and the UK have introduced mandatory disclosure of ESG factors and/or climate risk and are exploring green stress testing of banks' lending portfolios. Many other jurisdictions across the globe, including Japan, Hong Kong, Germany, Belgium and South Africa, have adopted non-binding codes of conduct for the disclosure of ESG factors, for example via Stewardship Codes. Canada, China, and Malaysia are jurisdictions currently developing taxonomies for sustainable investing. Finally, the move toward a principles-based ESG disclosure approach is echoed in the recent IOSCO Report[4] and in a global dialogue among securities regulators to discuss ESG taxonomies.

Credit Suisse would support the Commission's decision to extend the Names Rule to ESG provided that the Commission concurrently consider a broader ESG framework that reflects ESG as an investment strategy and not a product

Against this backdrop, numerous sustainable investment approaches and definitions are emerging across asset classes in the market. As long as the offered solutions are transparent and declare their ESG-specific objectives and methodologies, such variety is welcome, because it reflects the equally multifaceted expectations of the investor base in terms of ESG intentions. Therefore, Credit Suisse would support the initiative of the SEC to consider measures to ensure the transparency for solutions labeled ESG, "green," or sustainable, which is an important step for clients to be better able to choose and match their preferences. However, Credit Suisse recommends that the Commission concurrently consider a broader framework for evaluating ESG given the broader implications and applications to the Commission's market regulations.

The Commission should continue requiring robust disclosure in which each fund sets out its particular ESG investment strategy in sufficient detail, allowing investors to differentiate among funds. Such an approach would allow the Commission to take a broader view of the ESG landscape, and enable application of a consistent ESG taxonomy across its rulemakings to the benefit of the investing public and regulated entities. To this end, Credit Suisse believes it is critical that the Commission consider ESG an investment strategy and not a specific set of products. To illustrate, judging the sustainability of a fund purely based on the quantitative portfolio holdings (look through) at a specific moment in time would not reflect the complete picture, because of the following considerations:

- The portfolio composition could easily change over time if no explicit policy and process were followed;
- The investment strategy may intentionally focus on ESG laggards, but provide enhanced engagement with the portfolio holdings to create a positive impact;
- An absolute perspective on sustainability quality contains significant biases (size, region, industry), which would lead to unintended risk exposures or make application in certain areas questionable (high yield, small caps or emerging markets investment strategies); and,

[3] IOSCO "Statement of Disclosure of ESG Matters by Issuers," available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD619.pdf.
[4] IOSCO "Sustainable Finance and the Role of Securities Regulators and IOSCO Final Report," available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf.

- There are significant differences between ESG data and research providers, which would make comparisons questionable, prevent research-based innovation and inhibit competitive ideas if the defined rules were more granular.

On the other hand, Credit Suisse would welcome more standardization with regard to definitions and terminologies. This would further facilitate comparisons for investors and would provide clarity for fund providers on fund solutions and ESG reporting requirements. Initiatives such as those provided by SASB, TCFD, and the Global Reporting Initiative (GRI) will be beneficial in this context.

ESG labeled funds should specifically disclose their general ESG policy as well as the approach to integrate ESG in the investment process

In order for investors to choose the fund that best meets their own ESG investing objectives, funds should provide full transparency about the selected ESG investment approach. As clients' investment objectives and boundary conditions, such as liquidity constraints or risk budgets, can vary, a diversified market with a broad selection of solutions is welcome, as long as the fund disclosures are accurate and transparent. In addition to a clear policy covering the general approach toward sustainability and ESG, the disclosures should include the following: whether and how the investment universe is affected; whether and how ESG insights influence security selection and portfolio construction; how ESG performance is measured and reported; and if principles of active ownership (voting and engagement) are applied.

Due to the lack of standards and aligned terminologies in the ESG and sustainable investment area, particular attention should be given to the actual procedures behind the indicated labels and tools. Whereas the market provides dozens of differently labeled approaches to ESG and the Global Sustainable Investment Alliance[5] lists seven differentiating categories, Credit Suisse has created a framework along the following lines, which we believe to be transparent and understandable enough to accommodate ESG convictions with different objectives and, at the same time, reflect most relevant client preferences:

- **Exclusions**
  Avoiding harmful investments
  Systematic avoidance of exposure to controversial areas or unethical behaviors
    - Norms-based exclusions
    - Values-based exclusions
    - Exclusions based on business conduct (UN Global Compact breaches)
    - Exclusions based on sanctions

- **ESG integration**
  Making better informed investment decisions through the integration of ESG insights
    - Consideration of financially material ESG risks and opportunities
    - Based on industry-specific sustainability expertise
    - Reflects the manager's house view on ESG topics
    - ESG integration in investment processes in combination with financial analysis
    - Approach adapted to asset class, product features and investment objectives

[5] These categories include the following: (1) Negative/exclusionary screening; (2) Positive/Best-in-class screening; (3) Norms-based screening; (4) ESG Integration; (5) Sustainability themed investing; (6) Impact/Community Investing; and, (7) Corporate Engagement and shareholder action. Global Sustainable Investment Alliance "2018 Global Sustainable Investment Review," available at: http://www.gsi-alliance.org/trends-report-2018.

- **Themes and Impact Investing**
  Providing investment solutions towards the Sustainable Development Goals (SDG)
  Thematic and Impact aligned
    - Participation in sustainable growth themes
    - Alignment of investor and enterprise mission to generate impact
    - Address societal challenges that generate competitive financial returns

  Impact investing
    - Products that fully comply with the IFC definition of impact investing (additionality, measurability, intentionality)
    - Clear and direct investor contribution to the impact of the enterprises via financing growth or active ownership

Based on these considerations, Credit Suisse believes that a sustainable investment strategy does not necessarily have to satisfy all three dimensions of ESG at the same time. Even within one specific dimension, many different approaches would be possible to target a very specific issue, such as diversity, climate change or governance improvements. However, in line with the recommendations of the "do-no-harm" principle of the Sustainable Finance Action Plan of the European Commission, certain safeguards could be considered for adoption and implementation by "sustainable" funds. This could include, for example, the fund manager determining not to significantly impair ESG areas that are not specifically addressed by the fund's investment strategy, and disclosing this approach to the fund's investors.

As the SEC continues to contemplate an ESG taxonomy, Credit Suisse would encourage discussions and alignment between the SEC and its fellow IOSCO members

The absence of harmonization with regard to standards and terminology in ESG reporting and investing has been a roadblock for the successful implementation of sustainable investment strategies globally. As described above, Credit Suisse sees the benefit of alignment in the areas of agreed terminology and taxonomy rather than in a more granular, standardized definition of sustainable investment processes.

Credit Suisse and most peers with global reach are in the process of setting up internal programs to further promote sustainable investing and to particularly address the following concerns:

- Providing more transparency to clients;
- Classifying the product shelf in a systematic way to improve comparability;
- Standardizing ESG reporting;
- Upgrading the advisory process to record clients' ESG preferences;
- Adjusting systems to ensure product suitability around ESG; and
- Broadening the offering for sustainable investments to close existing gaps.

If these initiatives can make use of aligned standards and taxonomies, they will be more successful and result in a more substantial contribution toward sustainable development. Even more importantly, they will empower clients to have a real choice between comparable and transparently documented solutions. Consequently, Credit Suisse would welcome a dialogue between the SEC and other IOSCO members to further advance and align such standards.

****

We thank the SEC for their consideration of Credit Suisse's comments. If you have any questions, please do not hesitate to contact the undersigned, Peter Ryan [redacted] or Keaghan Ames [redacted].

Sincerely,

Roger Machlis
General Counsel, Credit Suisse Asset Management