Via email to rule-comments@sec.gov

August 15, 2022

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

RE: ESG Disclosures for Investment Advisors and Investment Companies " (File No. S7-17-22)

Dear Ms. Countryman:

I welcome the opportunity to provide this comment letter in response to the Notice of Proposed Rulemaking "Environmental, Social and Governance (ESG) Disclosures for Investment Advisors and Investment Companies " (File No. S7-17-22) ("Proposal").

I write in support of the rationale behind the Proposal to ensure that investors are provided with information that helps them understand the environmental, social and governance considerations included in a fund. That being said, I believe the final rule needs to improve upon this proposal in several areas, which I discuss below.

Recommendations to strengthen the proposal

Remove Fund Categories

As drafted, the Proposal creates fund categories I believe the SEC staff will have trouble utilizing. The category into which a fund places itself determines the disclosures it would have to make under the Proposal. Integration Funds would be required to summarize in a few sentences how they incorporate ESG factors into the investment process, including which ESG factors they consider. ESG-Focused Funds ("Focused Funds") would have much more extensive obligations. They would be required to identify in the ESG Strategy Overview summary table the ESG strategies it follows, such as screening, reliance on third-party data and ratings, and use of an index, as well as provide brief descriptions of how ESG factors are incorporated and how they vote proxies and/or engage with companies. The Proposal would also require Focused Funds to provide more detailed information about relevant strategies later in the prospectus. Impact Funds would have to disclose more extensive information, including the impact(s) it is pursuing, how it seeks to achieve the impact(s), how it measures impact and the time horizon over which impact is measured and tracked.

The Proposal's division of funds into three categories does not reflect the reality of how fund managers incorporate ESG factors in investment and stewardship decision-making, which could increase compliance costs. Sustainable investing strategies do not always fit neatly into an "ESG Integration" or "ESG Focused/Impact" box. The inconsistency between the discrete categories used in the Proposal and funds' own approaches would create difficulty for funds seeking to determine which compliance regime applies to them, which in turn could impose compliance costs that are higher than those contemplated by the Release. I also believe that the majority of ESG-Focused funds are seeking specific outcomes or impacts so that having impact funds as a subset of ESG-Focused funds could be duplicative, particularly in the public markets – the market this proposal focuses on.

The SEC should require all funds that consider ESG factors to disclose the same information to investors. Investors should be able to compare funds across ESG approaches. Further, eliminating the Proposal's fund categories would simplify compliance, avoid investor confusion stemming from unequal disclosure across fund categories, **and eliminate the incentive for funds to place themselves in the Integration Fund category to take advantage of its minimal disclosure obligations.**

I. All funds utilizing ESG criteria should disclose:

a. An overview of fund strategy
b. How the fund incorporates ESG criteria into investment decision making
c. The use of 3rd party data, scoring or ratings
d. The use of an index and how the index uses ESG criteria
e. The impact objective of the fund, if any
f. How the fund engages with portfolio companies on ESG issues (including but not limited to the taxonomy of engagement activities outlined by the Impact of Equity Engagement Initiative)[1]
g. If climate change is a significant or main consideration of the fund, disclose the greenhouse gas (GHG) footprint and the weighted average carbon intensity as defined in the Proposal

Greenhouse gas emissions

While, in principle, I support the greenhouse gas ("GHG") emissions metrics, the SEC has not made a case for why this is the only ESG metric required in this proposal. I believe this needs to happen if it is to remain in the final rule. Additionally, the proposed requirement that Focused Funds, but not Integration Funds, disclose the Proposal's standardized GHG emissions metrics likewise limits investors' ability to compare funds across categories on this important dimension.

Disclosures on engagement practices need improvement

Shareholder engagement can be an important component of a fund manager's sustainable investment strategy. Understanding what methods a fund manager uses in the engagement process with portfolio companies may give a more complete picture of the fund's strategy.

However, the Proposal oversimplifies the engagement process by requiring only one metric, the number of company meetings. The Impact of Equity Engagement Initiative (IE2) identified 14 activities that shareholders use when engaging companies.[2] It is my recommendation that the disclosures required on engagement practices should allow the fund managers to describe their engagement activities more broadly than the current proposal does.

[1] Evaluating the Impact Of Shareholder Engagement in Public Equity Investing, The Impact of Equity Engagement Initiative, 2014 at p. 9. https://croataninstitute.org/wp-content/uploads/2021/05/IE2_Report.pdf
[2] Ibid.

Additional ESG disclosures on Form ADV are unnecessary

The Proposal would require registered investment advisors to provide additional disclosures about their ESG strategies and methods of analysis. I believe these disclosures are already required in Part 2A of Form ADV [3] Sustainable or ESG investing is a strategy that advisors, should they use it with clients, already should be disclosing this information.

Thank you for considering these comments.

Sincerely,

Jonathan F. P. Rose

Manager

[3] Part 2A of Form ADV -Item 8 Methods of Analysis, Investment Strategies and Risk of Loss Instructions, "A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.
B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.
C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail."