PARNASSUS INVESTMENTS®

Submitted 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: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices (S7-17-22)

Dear Ms. Countryman,

We write today on behalf of Parnassus Investments ("Parnassus") in support of Proposed Rule S7-17-22: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance ("ESG") Investment Practices ("Proposed Rule", "Rule"). Parnassus Investments[1] has followed an integrated and active investment process, analyzing issuers based on fundamental factors, valuation, and ESG factors since our founding in 1984. Active ownership and integration of ESG research are therefore core to our business.

We support the goals of the Proposed Rule and commend the Securities and Exchange Commission ("SEC") for addressing the risk of ESG greenwashing and improving investor understanding of ESG investment strategies. We welcome the introduction of a thoughtful regulatory framework for ESG advisory services and investment companies that can inform and protect investors and provide additional clarity in the marketplace. However, it is imperative that the framework not be overly burdensome or confusing to investors and it should not impede growth or innovation in this important area of investing.

Parnassus supports the below provisions in the Proposed Rule and offers suggestions to modify the Rule to better serve investors, the market, and the intent of the Commission.

- We support requiring an ESG-Focused Fund to provide information about the ESG-related aspects of its investment strategies in the summary prospectus. We also support requiring a deeper, narrative overview of how such funds incorporate ESG factors in the statutory prospectus. The availability of succinct *and* detailed information on ESG processes allows investors to determine the level of granularity they need when researching a fund. This will allow investors to more easily differentiate among fund strategies that do, and do not, incorporate ESG factors. This will help to address and mitigate greenwashing concerns and improve the availability, quality, and comparability of fund disclosures.

[1] As of June 30, 2022, Parnassus managed over $35 billion in client assets across four equity strategies and one fixed income strategy.

- We support requiring an ESG-Focused Fund to disclose information on its engagement strategies that are used in the furtherance of ESG objectives. We believe this will help to reduce the potential for exaggerated claims of engagement activity and mitigate greenwashing concerns. However, the Proposed Rule requires disclosure of the number or percentage of issuers with whom the fund held ESG engagement meetings related to one or more ESG issues and total number of ESG engagement meetings. In its current form, we believe this would incentivize investment managers to prioritize the quantity – rather than the quality – of company engagements and heighten the risk of greenwashing. This would result in some funds' prioritizing primarily low-touch, surface-level interactions with companies to maximize the quantity of reportable engagements. This would also mislead investors to believe that many short engagement meetings are preferable to a smaller number of deep, highly focused, outcome-oriented ESG engagements. In our experience, meaningful ESG engagements that inform investment decisions and/or encourage positive change within companies can require multi-year strategies collaborating with a small number of companies and does not necessarily require a high volume of meetings. Depth of knowledge, continued communication through email and meetings, and the filing of shareholder proposals as necessary are all important engagement activities that would not be properly captured by the proposed framework. We propose that the SEC instead require high-level narrative disclosure describing the priorities of fund engagement programs and the outcomes of such engagements, rather than requiring reporting in quantitative terms. Additionally, funds may optionally identify and report on relevant engagement KPIs to supplement the narrative disclosure.

- We support requiring ESG-Focused Fund disclosure of high-level information on the nature of proxy voting policies and vote outcomes on management and shareholder proposals during the reporting period. Proxy voting is a fundamental right of common shareholders and among the most important ways that investors can express their views to the boards of directors they have elected to represent their interests. Most items on proxy ballots are governance- or compensation- related and an increasing number relate to environmental and social issues. Information on how an investment manager approaches proxy voting is an important data point in assessing a fund's views on ESG matters. We acknowledge, however, that individual proxy decisions can be made for many reasons and that the quality of stockholder and management proposals can vary widely. For that reason, we believe brief qualitative disclosures should reasonably accompany quantitative data, where appropriate.

- We support the proposed greenhouse gas emissions reporting obligations, including mandatory disclosure of the carbon footprint and weighted average carbon intensity ("WACI") of portfolios for the reporting period. Climate change is among the most pressing issues of our time and disclosure of climate-related data is highly pertinent to investment decision making and a well-functioning market. However, we do not believe that funds should be required to report data in a regulatory filing that is dependent on portfolio companies' data *unless* the portfolio companies are also required to report the data. Thus, it follows that the Commission should first require public companies to report GHG emissions data. We are pleased that this is part of the SEC's current regulatory agenda.

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We believe the below provisions are counterproductive and suggest that the Commission improve the Proposed Rule by making the below changes.

- Remove or make optional the provision requiring a description of third-party data provider methodology in the summary table and in the prospectus. This disclosure obligation would inappropriately put the burden on funds to include information about a third party's methodologies in its own regulatory filings. Including information from a third party could inappropriately introduce risks to funds related to the accuracy and completeness of the third party's information over which they have no control. In addition, the proposed requirement to disclose any internal methodology the fund adviser uses and how that methodology incorporates ESG factors could raise concerns about unfair disclosure of proprietary information.

- Remove or make optional the proposed requirement to disclose the scoring or ratings system of any third-party data provider, such as a scoring or ratings provider, used by the fund, including how the fund evaluates the quality of such data. We believe this disclosure would be unnecessarily granular and place unwarranted focus on ESG-related data providers, above all other data providers. Funds may use a wide variety of sources for data and information to support their investment research and processes. The proposed disclosure requirements could confuse investors by overemphasizing the role of ESG data providers relative to other types of data providers.

Parnassus Investments is grateful to the Commission for the attention it is giving to this important investment and market issue and believes the Proposed Rule furthers the SEC's mission to protect investors and maintain fair, orderly, and efficient markets. We extend our support of the goals of the Rule and suggest the SEC modify it in the previously identified ways.

Thank you for your time and consideration of our comments.

Respectfully,

Marian Macindoe
Head of ESG Stewardship
Parnassus Investments