



Via email to [rule-comments@sec.gov](mailto: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:

We contact you today with regard to ESG Disclosures for Investment Advisors and Investment Companies. First Affirmative is an SEC registered investment advisor with oversight of approximately \$900 million in assets under management and advisement. We consider the integration of environmental, social, and governance (ESG) issues to be a fundamental fiduciary duty to our clients and have been guided by this consideration since our inception in 1988.

We support the rationale behind the Proposal to ensure that investors are provided with information that helps them understand the ESG considerations included (and the limitations of such ESG considerations) in a fund. However, we are concerned that, without some modifications upon this proposal in several areas, the rule will not 1) effectively reduce opportunities for greenwashing and 2) provide investors with full transparency on the ESG criteria utilized by these funds. We would appreciate your consideration of the following points when promulgating a final rule.

### **Advisory Requirements for Form ADV**

Form ADV Part 1A

The Proposal would require further information about the use of ESG factors in an advisor's business. We believe it is imperative that we know what that information is to determine if collecting that information is feasible. This information is also needed to do any type of cost analysis. It would also be advantageous to know what parts of this information will translate into additional disclosures in Form ADV Part 2A.

## Form ADV Part 2A

The Proposal would require registered investment advisors to provide additional disclosures about their ESG strategies and methods of analysis. Although we certainly agree that any advisor incorporating “ESG”, “sustainable”, “values-based” or other related investing strategies on behalf of their clients should be transparent about their process, these disclosures are already required and 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.”*

The First Affirmative Financial Network ADV contains explicit detail in accordance with the above existing requirement and in doing so provides clients with full transparency with regard to the integration of ESG into the investment strategies utilized on their behalf. **We believe that the SEC should remove the advisor requirements for Form ADV from their proposal as they are duplicative of existing requirements.**

### **Proposed Fund Categories**

The proposed rule attempts to delineate ESG funds into three distinct categories. Unfortunately, the wide array of existing and emerging funds do not and will not fit neatly into categories, and an attempt to force the fit may lead to unintended consequences for investment firms and their clients. We also note with concern that integration funds have minimal disclosure obligations. This may incentivize funds to place themselves in the integration fund category to take advantage of these minimal disclosure obligations while still wearing an ESG label, and that, we believe, is a disservice to clients.

For investment firms, 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, thus increasing costs.

Any funds that claim to use ESG related factors should be required to disclose the same information to investors so that investors have comparable information for each fund, **regardless of where that fund falls on the ESG spectrum**. Eliminating the categories would avoid investor confusion stemming from unequal disclosure across fund categories, and the comparable disclosures provided by the companies should give investors the information they need to understand the extent of a firm’s ESG focus and commitment to engagement, if any.

The disclosures laid out in the rule that apply to the ESG focused/impact categories can be applied across the board; those funds that do not go beyond what would be described in the integration category can disclose their lack in engagement in the specified areas.

### **Greenhouse Gas Emissions Metric**

The SEC proposes the disclosure of a single ESG metric. We do support the disclosure of greenhouse gas (“GHG”) emissions metrics, but we are concerned that this is the only ESG metric required in the proposal, as it only provides a single quantitative data point on one aspect of ESG investing practice. We also note again that as currently written the proposed rule would differentiate ESG “integration” funds from the other categories by not imposing a GHG emissions metric requirement-limiting an investor’s ability to compare funds across categories on this critical material issue. We believe that the SEC should seek input and draw from existing respected frameworks that would provide a more holistic approach and adopt a discrete set of metrics that would better represent a fund’s overall ESG profile.

### **Disclosures on Engagement Practices**

First Affirmative Financial Network has been active in engaging companies on ESG issues for almost 15 years. It is an important aspect of our sustainable investment strategy and service to clients. This proposal requires only one metric for companies to report on when it comes to engagement-the number of company meetings. Simply counting meetings is not reflective of the quality, reach, and impact of an engagement program, and we believe that this could provide an inaccurate picture of engagement strategy and effectiveness. The Impact of Equity Engagement Initiative (IE2) identified 14 activities that shareholders use when engaging companies.<sup>1</sup> Clients would benefit from a broader disclosure on engagement practices that allow managers to describe a full overview of engagement strategy and execution more broadly and holistically than is described in the current proposal.

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<sup>1</sup> 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](https://croataninstitute.org/wp-content/uploads/2021/05/IE2_Report.pdf)

We appreciate that the SEC has proposed a rule that intends to hold financial services firms accountable and transparent in their use of ESG criteria. We hope that the SEC can consider and incorporate changes in the final proposal that address some of the concerns we have noted above.

Regards,

A handwritten signature in cursive script that reads "Holly A. Testa".

Holly A. Testa  
Director, Shareowner Engagement