Via email to rule-comments@sec.gov

August 16, 2022

Ms. Vanessa Countryman
Secretary
US 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 (File No. S7-17-22)

Dear Ms. Countryman:

I am writing on behalf of Domini Impact Investments LLC ("Domini"), an investment adviser and sponsor of a proprietary family of mutual funds, to provide our views on the Securities and Exchange Commission's proposal to require registered investment advisers, registered investment companies, and business development companies, to provide additional information regarding their environmental, social, and governance (ESG) investment practices.[1]

As an impact investor, Domini supports the fundamental goals of the Commission's proposal to mitigate the risk of greenwashing and promote investor understanding of ESG funds. We also support important aspects of the proposal, such as promoting transparency with respect to ESG strategies employed by each fund, facilitating the ability of investors to distinguish between "ESG" funds and "non-ESG" funds, and improving the ability of investors to compare ESG-related investment strategies across funds.

We offer several comments below identifying some areas for improvement to the proposal that would support the Commission's goals, but minimize the risk of potential unintended consequences of increasing, rather than mitigating, the risk of investor confusion and greenwashing.

[1] *See Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices* (May 25, 2022) (Proposing Release), available at https://www.sec.gov/rules/proposed/2022/33-11068.pdf.

We refer to registered investment companies as funds throughout this letter.

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Overview of the Domini Impact Investment Process

With an exclusive focus on impact investing, Domini aims to help drive positive outcomes for our planet and its people while seeking competitive financial returns ("Impact Investing"). For Domini, impact investing is the intention and purpose of evaluating environmental and social factors in addition to financial analysis. The intention and purpose of impact investing is based on the belief that it is possible to generate competitive returns while seeking to promote ecological sustainability and universal human dignity, as outlined in the Domini Impact Investment Standards.[2] These goals are overarching to all the work we do. However, it does not necessarily target specified impact outcomes.

All of the investment and/or eligibility selections made by Domini are based on the evaluation of environmental and social factors, including the core business in which a company engages and/or how a company treats its key stakeholders, such as customers, employees, suppliers, ecosystems, local, national and global communities, and/or investors ("environmental and social factors"). Domini's analysis generally includes studying the company, issuer or bond, its industry, products and services, and/or competitors, and with respect to companies that demonstrate a commitment to sustainability solutions, financial criteria, and/or quality of a company's management practices.

Domini uses the following environmental and social factors in making investment and eligibility selections:

- *Business Alignment.* Domini seeks to determine the degree to which a company's core business model is aligned with the fundamental goals of universal human dignity and ecological sustainability. Domini seeks investments aligned with the universal values of fairness, equality, justice, respect for human rights, and/or long-term environmental sustainability, including climate change mitigation and adaptation. Certain businesses, like manufacturing vaccines or distributing renewable energy, are fundamentally aligned with Domini's fundamental goals.

  Domini seeks to avoid investment in companies or issuers that it determines to be sufficiently involved with certain goods or services, based on factors such as percentage of revenue, magnitude of involvement, or ownership (e.g., related to weapons and firearms and nuclear power, among others). Domini also excludes companies in the energy sector substantially involved in coal or uranium mining and oil and natural gas exploration and production, storage, transportation, refining, and related services. In addition, Domini excludes electric utility companies that have either announced plans for new construction after the Paris Agreement was adopted in 2015 or that have over 50% installed capacity from coal-fired generation.

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[2] *See Domini Impact Investment Standards,* available at: https://domini.com/wp-content/uploads/2022/03/Domini-Impact-Investment-Standards_1121.pdf

- *Stakeholder Relations.* Domini may also seek to assess the company or issuer's relations with key stakeholders, such as the entity's customers, employees, suppliers, ecosystems, local, national and global communities, and/or investors. In its evaluation, Domini seeks to identify companies that, among other factors:

    - Enrich the ecosystems on which they depend;
    - Contribute to their local, national and global communities;
    - Produce high-quality, safe, and useful products and services;
    - Invest in the wellbeing and development of their employees;
    - Strengthen the capabilities of their suppliers; and
    - Communicate transparently with their investors.

Some of the Domini Funds invest in companies that also demonstrate a commitment to sustainability solutions. A company demonstrates a commitment to sustainability solutions if, based on Domini's analysis, the company provides, invests in or creates products or services that help, among other things:

- Accelerate the transition to a low-carbon future, including through renewable energy, distributed generation, off-grid solutions, energy storage, electric vehicles, or energy-efficient technologies.
- Contribute to the development of sustainable communities, including through safe and affordable housing, eco-friendly design, low-carbon transportation systems, or climate resilient infrastructure.
- Support more sustainable food systems, including through the improvement of, or access to, healthy, natural, organic, or plant-based food, the reduction of food waste, promotion of resource-efficient agriculture, or support for small-scale farming.

In our research process, Domini may consider how companies assess, manage, mitigate, and address risks related to climate change, in addition to issuers' greenhouse gas ("GHG") emissions, which is the reflection of the actual implementation of stated reduction goals or strategies. We may also seek to evaluate both GHG emissions in absolute terms as well as emissions intensity and look for time-bound quantitative reduction targets. In the overall assessment of the board and management's ability to identify, respond to, and mitigate risks, we may value disclosure of thorough transition strategies, along with Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting.[3]

We note that Domini may determine that a company or issuer is eligible for investment by a fund even when the company's profile reflects a mixture of positive and negative environmental and social characteristics (for example, certain automobile or electric utility companies may have mixed degrees of Business Alignment). Domini's process also recognizes that relationships with key stakeholders are complicated and that even the best of companies often run into problems day to day. Domini's approach

[3] *See reporting recommendations of the Task Force on Climate-related Financial Disclosures*, available at https://www.fsb-tcfd.org/recommendations/.

recognizes that a company or issuer with a mixed record may still be effectively grappling with important issues in its industry and may determine that a company with a combination of controversies and strengths and weaknesses is eligible for investment. As a result, Domini may consider a company or issuer eligible for investment when it determines that, on balance, it has a strong profile, has neutral or mixed profile, or sees signs that progress is being made toward long-term benefits. Domini will evaluate companies and issuers on a case-by-case basis, looking for signs of improvement, positive trends and the entity's overall environmental and social performance.

Proxy Voting

Domini votes proxies on behalf of its Funds using voting guidelines that are aligned with our Impact Investment Standards.[4] As a transparency leader, Domini first published its Proxy Voting Guidelines in 1992. We continue to believe that proxy voting is a critically important form of engagement with companies on issues that matter to our shareholders, such as climate change or human rights, and our proxy voting guidelines reflect that.

Engagement

When appropriate, Domini may engage in dialogue with the management of companies or issuers encouraging them to address the environmental and social impacts of their operations. Domini may seek to raise issues of environmental and social performance with the management of certain companies through proxy voting, dialogue with management, and/or by filing shareholder proposals on behalf of a fund, where appropriate. We have filed over three hundred proposals as part of our engagement strategy as a tactical tool to make progress on an underlying issue, for example if we reach an impasse or to elevate an issue before corporate management and the board. Companies will often engage with us and we are open to reaching an agreement, which results in a withdrawal of our proposal. If we cannot reach agreement, an eligible proposal may be printed in the corporate proxy statement for a vote by all company shareholders. In addition, we frequently collaborate with other investment firms, public pension funds and foundations on shareholder proposals, investor statements, or public policy letters on a variety of environmental and social issues. As a transparency leader, Domini publishes quarterly and annual impact reports and maintains a list of its recent shareholder proposal activity and public statements by year on its website, with additional historical activity available upon request.

Proposed Fund Definitions and Disclosure Requirements

We support elements of the proposal that enhance an investor's ability to distinguish between "ESG" funds and "non-ESG" funds and to compare key aspects of ESG-related investing strategies across funds. However, we share industry concerns that the proposed fund disclosure requirements are complex and prescriptive. We are concerned the proposed categorizations will increase the risk of investor confusion. **We support elimination of the term "Integration Funds" to ensure that "ESG" funds**

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[4] *See Domini Proxy Voting Guidelines,* available at https://domini.com/investing-for-impact/strategies/engagement/proxyvoting/.

and "non-ESG" funds are clearly distinguished. In addition, we support modification of the term "Impact Fund" to include those funds that are intentionally impact-aligned, rather than just those seeking a specific ESG-related outcome.

We also believe that the definition of certain terms will be required for the rule to achieve its intended purpose, otherwise the proposed rule may contribute to further subjective definitions and inconsistency across the market. For example, terms like "ESG voting matters" and "substantive ESG engagement," should have clear and defined meanings before funds are required to complete disclosures on these terms. In addition, we are concerned with requiring funds to disclose information about issuers when this information is not yet required disclosure for issuers or is not yet consistently available.

Integration Funds

The Commission proposes to require any fund that falls within the definition of "Integration Fund" to include specific ESG-related disclosures in its prospectus. We are concerned that the proposed definition of Integration Funds is too broad and captures every ESG factor regardless of how significantly it is weighed in a fund's investment selection process. As a result, we expect the new disclosure requirements would capture most funds, particularly since certain governance factors such as such as board matters are likely considered by most funds.

Integration Funds Category Should Be Eliminated

We are concerned that the proposed definition of Integration Fund does not adequately address the breadth and depth to which ESG factors are integrated into a fund's investment selection process and assigns an ESG classification to funds that may only consider one or more governance or other factors as a minor component of their research process. As proposed, the disclosure requirements will emphasize ESG factors above any others utilized in the investment selection process for mandated disclosures, even though, the proposed definition of Integration Funds, characterizes ESG factors as "no more significant than other factors in the investment selection process" and are not "determinative in deciding to include or exclude any particular investment." Increasing disclosure of information on a matter which may not be material in the investment process as required by the proposal in a fund's summary and statutory prospectuses could potentially mislead or confuse investors regarding the relative importance of those factors in an Integration Fund's investment process.

The scope of the definition for Integration Funds combined with the prospectus disclosure obligations as proposed may have the unintended effect of increasing investor confusion and exacerbating greenwashing by pulling more funds into an "ESG"-associated category when ESG factors are not a primary investment selection tool for such funds. For these and other reasons, we recommend that the proposal be modified by not defining and not mandating any new disclosure requirements for Integration

Funds. **We are a proponent of maintaining two categories of funds, "ESG" funds and "non-ESG" funds.**

ESG-Focused Funds

The Commission proposes enhanced disclosures by ESG-Focused Funds in prospectuses and specific reporting obligations in annual reports, in certain circumstances. We generally support aspects of the proposed new requirements that would help investors identify those funds that are "ESG" funds and promote comparability of information about their investment strategies. The proposed disclosure requirements, however, include broad and prescriptive provisions that could increase the risk of investor confusion and greenwashing.

Proposed Definition of ESG-Focused Funds Needs Clarification

The proposed definition of an ESG-Focused Funds would include funds based solely on their engagement strategies without consideration for their investment selection process. Engagement with portfolio companies is not an activity that is limited to funds with ESG focused investing strategies and many "non-ESG" funds consider communication about governance practices as a standard area of focus in engagement activities. Depending on the intended meaning of "significant or main consideration" in the proposed definition we are concerned that a broad interpretation of this phrase would inadvertently capture funds whose advisers are merely engaging with companies as a standard part of their investment process rather than to further an ESG strategy.

We are also concerned about basing the definition of ESG-Focused Fund on a limited use of one or two tools which are not principal investment strategies, which is a more "ESG lite" approach than funds whose principal investment strategies reflect a commitment to evaluating environmental and social factors. For example, reference to a fund's engagement strategies alone should not "qualify" a fund as an "ESG" fund, when the proposed disclosure requirements for ESG-Focused Funds are intended to address how a fund's adviser decides which securities to buy and sell.[5] In our view, a fund's engagement strategies may support buy-and-sell strategies, but are not buy-and-sell strategies and as such should not determine a fund's classification as an "ESG" fund.

Proposed ESG Strategy Overview Table Needs Modification

An important part of the proposed disclosure regime for ESG-Focused Funds is the inclusion of an ESG Strategy Overview table in an ESG-Focused Fund's summary prospectus.[6] We agree that requiring ESG-Focused Funds to include an overview table in their summary prospectuses can help investors

[5] Item 9(b)(2) of Form N-1A requires a fund to "Explain in general terms how the Fund's adviser decides which securities to buy and sell." The proposal would add instructions to Item 9(b)(2) for disclosures by funds defined as Integration Funds and ESG-Focused Funds under proposed Item 4(a)(2)(i).

[6] *See* Proposed Item 4(a)(2)(ii)(B) of Form N-1A and Proposed Item 8.2.e(2)(B) of Form N-2.

quickly and easily identify "ESG" funds and mitigate the risk of investor confusion and greenwashing. For this reason, **we support the inclusion of an overview table in an "ESG" fund's prospectus, subject to recommended clarifications to the definition of ESG-Focused Fund and improvements to the components of the ESG Strategy Overview table.**

We generally support requiring ESG-Focused Funds to summarize and disclose information about the ESG factors that are a focus of its principal investment strategies and its ESG strategies, as suggested in the first row of the proposed ESG Strategy Overview table. However, we are concerned that the "check-the-box" method for communicating information about the ESG strategies may limit an investor's understanding of the applicable strategies. As proposed, a fund would check the box for certain of the strategies, regardless of the weight the strategy is given in the investment process and would check the box for proxy voting and engagement "if it is a significant means of implementing the fund's ESG strategy."[7] We are concerned that this approach contemplates applying two different standards for checking each box in the table. It would be reasonable for an investor to assume that the standard for checking each box in a table is the same and is a significant means of implementing a fund's ESG strategy, but that is not the case with the proposed table, and it is likely to create confusion. We are also concerned that the "check-the-box" approach may incorrectly suggest that funds apply each of the "checked" strategies equally when the application of each strategy may vary significantly across funds. The comparability of the checked boxes is further limited by the lack of definition and specificity of some of the options, for example: "seeks to achieve a specific impact" may be interpreted differently by different funds, and the range of impact(s) a funds seeks to achieve may vary greatly, thereby limiting the comparability intended by the table. **We recommend that the Commission consider the addition of columns to the ESG Strategy Overview table, requiring funds to indicate whether each ESG strategy checked is primary or supplemental.**

Including proxy voting and engagement among the list of ESG-related strategies could also be confusing because all funds vote proxies and many fund advisers engage with companies regarding a variety of matters that are not necessarily ESG-related. Furthermore, we note that a fund's proxy voting and engagement strategies may support buy-and-sell strategies, but such strategies are not themselves buy-and-sell strategies. It may be confusing to present such non-investment strategies in close proximity to a summary of investment strategies affecting buy-and-sell decisions.

While we generally support disclosure of information to investors regarding a fund's ESG strategies and engagement and proxy voting activity, we view the scope of the proposed disclosures for the second and third rows of the ESG Strategy Overview Table and the proposed location of such information as inconsistent with the intent of the summary prospectus. We are concerned that the level of specificity and disclosure contemplated by the table defeats the purpose of the intended summary aspect of the summary prospectus and believe that such information may be better positioned in the statutory

[7] *See* Proposed Instruction 4 to Proposed Item 4(a)(ii)(B) of Form N-1A and Proposed Instruction 4 to Proposed 8.2.e(2)(B) of Form N-2.

prospectus.

To address these concerns, we support requiring ESG-Focused Funds to provide information proposed for the first row of the ESG Strategy Overview table in the summary prospectus. However, we believe it will be most informative for investors if such disclosure is limited to a concise narrative description regarding the ESG factor or factors that are the focus of the fund's principal investment strategies when it is reflected in that location. By curtailing the summary disclosure as suggested, investors will still be able to make an easy and quick determination whether a fund is an "ESG" fund which focuses on one or more ESG factors by using them as a significant or main consideration in buy-and-sell decisions and will have the opportunity to learn more about other specific implementation strategies by referring to a narrative description in the statutory prospectus.

Proposed ESG-Focused Funds Annual Report Requirements Need Modification

The proposal contemplates that an ESG-Focused Fund would disclose quantitative data regarding proxy voting and engagement and requires the production of certain detailed information. We are concerned that quantitative data alone would not necessarily enhance investor understanding of an ESG-Focused Fund's proxy voting and engagement activities and would impose significant burdens and costs on funds.

As a transparency leader, Domini is generally in favor of disclosure regarding proxy voting and engagement activities, but any such disclosure might be more informative if it is provided narratively and with more flexibility to ensure each "ESG" fund can adequately explain the scope of its proxy voting and engagement efforts. Consequently, **we support the proposed disclosure requirements relating to proxy voting and engagement subject to certain modifications as discussed below.**

Proxy Voting Requirements Need Modification

The proposal requires an ESG-Focused Fund that indicates that it uses proxy voting as "a significant means of implementing its ESG strategy" to disclose in its annual report the percentage of ESG voting matters for which the fund voted in furtherance of the so-called ESG initiative and include a cross reference to its most recent voting record filed on Form N-PX.

While Domini votes proxies on behalf of its Funds using voting guidelines that are aligned with its Impact Investment Standards and we have been a leader with respect to disclosure of our proxy votes since 1992, we are concerned that reporting just the percentage of ESG voting matters for which a fund voted in furtherance of an initiative would not be particularly meaningful to an investor presented alone. Many voting matters could be considered "ESG voting matters" and the specific classification of votes as ESG-related as proposed is subjective and may therefore be inconsistent across funds. We are also concerned that the proposal's reliance on quantitative data alone suggests that a high percentage of subjectively categorized ESG voting matters supported by a fund would reflect the extent to which a fund adheres to its ESG implementation strategies, when that is not necessarily the case. Many factors

are weighed when considering voting matters and a vote against a matter subsequently categorized as an "ESG voting matter" should not necessarily indicate to an investor that the fund has a lack of commitment to its ESG strategies, when in fact a vote against such matters could be driven by the inartful drafting of a shareholder resolution by the proponent. A report reflecting only the number of "ESG voting matters" for which the fund voted in in favor could result in potentially inconsistent and misleading information. In addition, the compliance burden associated with identifying and tracking which proposals constitute an "ESG voting matter" would be burdensome to develop since it is not fully consistent with current practices.

We note that an investor that wants to find out more about a fund's proxy voting policies and procedures can already review a description of a fund's proxy voting policies and procedures in its statement of additional information. Some funds, including Domini, also provide this information on their websites. **It might be more helpful to an investor trying to determine if a fund has robust proxy voting policies and procedures that is likely to further ESG initiatives if disclosure of an "ESG" fund's proxy voting guidelines are mandated for disclosure on a firm's website rather than requiring more reporting of quantitative data regarding the number of votes in an already full annual report.**

Furthermore, funds are already required to make their proxy voting record available to shareholders and have an existing disclosure obligation which allows investors to compare the voting results of different funds. Investors can access a fund's proxy voting record from the fund and on the SEC's website. A fund must make the information disclosed in its most recently filed Form N-PX available to shareholders either on the fund's website or upon request by calling a specified toll-free telephone number. Many mutual funds, including Domini, already make this information available on their websites. If a fund makes its proxy voting record available to shareholders upon request, the fund must send the information to shareholders, without charge, within three business days of receipt of a request. An investor can find out how a fund provides its proxy voting record to shareholders by reading its annual or semi-annual report to shareholders, or its statement of additional information. Again, we believe it might be more useful for an investor to determine if a fund has a strong ESG proxy voting record if the voting record is mandated for disclosure on a firm's website rather than requiring more reporting of quantitative data regarding the number of votes in an annual report.

We would support additional proxy voting reporting regarding "ESG voting matters" with certain modifications, including clarification and standardization of the definition of "ESG voting matter" to include proposals that address environmental and social matters. We suggest limiting the definition of "ESG voting matters" to those related to environmental and social matters, as voting on certain governance matters may or may not be linked to furthering an ESG strategy.

Some funds already voluntarily provide reporting on their proxy voting impact. In Domini's 2021 Annual Impact Report, the firm reported voting decisions by fund on proposals addressing

environmental and social topics.[8] In addition to reporting on shareholder proposals, it may be beneficial to investors to have reporting on voting decisions regarding executive compensation and board composition, where ESG considerations related to racial and gender diversity, qualifications on ESG topics, or independence, inform voting decisions. A standardized and more tailored definition of "ESG-voting matters" would promote consistency and comparability of data for investors on the most relevant ESG-related voting matters. We suggest that positioning such reporting in the Statement of Additional Information ("SAI") might be more appropriate than the annual report, as the information is supplemental to the readily available proxy voting information that is already contemplated by the current regulatory framework which requires disclosure regarding a fund's proxy voting approach in the SAI. In addition, any quantitative data mandated to be reflected in the SAI proxy voting disclosure would allow a fund to accompany such data with a brief narrative summary regarding its proxy voting guidelines and process, as applicable. **We believe investors will find quantitative proxy voting data to be more meaningful if it is accompanied by a brief narrative disclosure regarding a fund's proxy voting process and guidelines.**

Engagement Disclosure Requirements Need Modification

The proposal also requires an ESG-Focused Fund that indicates it uses ESG engagement as a significant means of implementing its ESG strategy to provide certain metrics regarding engagement activities, including the number or percentage of issuers with which the fund held ESG engagement meetings and the total number of ESG engagement meetings.

Domini identifies engagement as an important pillar of its approach and we generally support the goal of providing investors with additional disclosure to help evaluate the quality, depth, and priorities of a firm's engagement approach in order to help investors differentiate among funds. However, like the proposed proxy voting reporting, the proposed approach places significant emphasis on the quantity of engagement meetings, rather than the nature and quality of engagement, and gives credence to the premise that quantity alone is an appropriate metric for measuring the value of engagement activity. We are concerned that a disclosure requirement resulting in a report reflecting only the number of engagements might give investors the impression that a large number of engagement meetings would reflect more effective engagement than fewer but possibly more substantive meetings. In our experience, the ability to generate successful engagement outcomes is affected by many factors (e.g. size of the fund's position, company culture, company capacity for investor engagement) and is inherently limited by the give and take between the proponent for change and an issuer. Engagement is often non-linear, occurring over the course of many years with the use of varied tools, such as investor letters, dialogue, filing of shareholder proposals, collaboration, public policy engagement, and benchmarking, and the outcomes are often impacted by systemic, circumstantial, or external factors. Therefore, reporting on the number of engagements alone is unlikely to capture Domini's role or effort in trying to achieve specific engagement outcomes. Domini conducts research, strategy setting, collaboration with investors and other stakeholders and other activity, which the firm believes adds value to the depth and quality of our

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[8] *See Domini 2021 Impact Report,* available at: https://domini.com/wp-content/uploads/2022/03/Domini_Impact_Report_2021.pdf

engagement approach and strategy. In addition, the compliance burdens associated with documenting engagement activity supporting this proposed disclosure would be substantial as it is not fully consistent with current practices for engagement documentation.

The proposal also defines an engagement meeting as "a substantive discussion with management of an issuer advocating for one or more specific ESG goals to be accomplished over a given time period, where progress that is made toward meeting such goal is measurable, that is part of an ongoing dialogue with the issuer regarding this goal." We note that certain meetings that Domini considers falling within "engagement activity" today do not always involve advocacy regarding a specific goal. Domini has engagement strategies and priorities that are informed by and aligned with its Impact Investment Standards. We often have general objectives that align with our standards, and generally do not define fixed limits of time for each engagement at the outset. In many cases, engagement meetings involve multiple sessions and allow us to learn more about a company's efforts, plans, and progress on a number of topics. Such meetings may run over a number of years rather than in a single session. As a result, it would be difficult to assign a specific outcome to a specific meeting over a specific timeframe, as contemplated by the proposed definition of engagement meeting.

Because much of Domini's engagement activity occurs at the adviser level, and fund positions in a particular company can change over time, it would be challenging to document engagement activity by fund. For example, as an investor engaged exclusively in impact investing, we note that Domini is engaged in a number of firm level efforts, including our system-level work in the area of forest stewardship called the Domini Forest Project. With respect to this Project, our long-term initiative to protect and preserve forests is committed to understanding the drivers of forest destruction, its impact on our investment decisions, and how we can encourage ourselves, corporations, and governments to become forest value creators. The Domini Forest Project has been a significant firm-wide engagement effort that spans multiple years. We suggest modifying the definition of engagement matter to ensure that long-term, firm-wide, engagement projects such as the Domini Forest Project are not inadvertently excluded from the count for any required engagement reporting.

Domini agrees that it would be informative and useful for an "ESG fund" to describe its approach to engagement and its level of engagement to investors. We believe it may be more appropriate to include a brief description regarding engagement activities in the statutory prospectus and that a narrative description is likely to be more helpful to investors in understanding the engagement practices employed to support various ESG strategies. **We support requiring additional disclosure regarding engagement activities and recommend that both qualitative narrative descriptions and quantitative data, presented in context, would be more informative to investors.** We believe the combination of both qualitative and quantitative information will help to avoid the provision of potentially misleading or confusing information.

Proposed GHG Emissions Disclosure Considerations

The proposal contemplates that certain ESG-Focused Funds that consider environmental factors[9] would be required to disclose the carbon footprint and weighted average carbon intensity (WACI) of the portfolio for the reporting period. The proposal indicates that a fund would be required to use a hierarchy of data sources from which to calculate the metrics: regulatory reports, information publicly provided by the portfolio company, and, if such information is unavailable after a reasonable search, a "good faith estimate" of the portfolio company's emissions. In addition, if a portfolio company reports its Scope 3 emissions in a regulatory report or provides it publicly, then an ESG-Focused Fund that considers environmental factors also would be required to report the carbon footprint metric based on the Scope 3 data.[10]

We support the disclosure of GHG emissions data by ESG-Focused Funds that consider environmental factors. While we recognize industry concerns that the scope of funds subject to the proposed GHG emissions reporting obligation may capture funds that do not seek to mitigate or manage GHG emissions reduction as part of its investment objective or principal investment strategies, we believe as the data and market currently stand, GHG emissions provide investors with the most meaningful measure of the implementation of a funds' commitment to its environmental focus. Although this information is imperfect in its current form, it is the best available. We recommend continual consideration of the most appropriate measurement tools available and modification of requirements as improved measurement assessments become available.

We also recommend specific enhancements to improve the utility of reported information in understanding a fund's approach, where quantitative data alone may not present the full picture. In addition to the carbon footprint and weighted average carbon intensity, we recommend that the scope of such reporting be expanded to permit a year over year comparison of a fund's aggregated GHG emissions, which will better enable investors to evaluate the information more fully in context, rather than as of a discrete moment in time, as well as in the context of a fund's overall approach to environmental sustainability.

For those funds which are subject to GHG emissions disclosures, **we are in favor of ensuring this information is supplemented by a description of the fund's forward-looking strategies to help reduce carbon emissions,** such as sector or stock-specific exclusion of high GHG emitters or

[9] Under the proposal, an ESG-Focused Fund that indicates that it considers environmental factors in response to Item C.3(j)(ii) on Form N-CEN, is subject to the report GHG emissions reporting requirement, except if it affirmatively states in the ESG Strategy Overview table that it does not consider GHG emissions of portfolio companies in which it invests.

[10] ESG-Focused Funds that focus on environmental factors would be required to disclose Scope 3 emissions separately for each industry sector in which the fund invests, as well as the percentage of the fund's net asset value invested in each industry sector. *See* Instruction 1(c) to Proposed Item 27(b)(7)(i)(E).

consideration of an issuer's climate transition plan and how it aligns with the goal of limiting global average temperature increase to less than 1.5 degrees Celsius. For example, when seeking to identify investment opportunities for its Funds, Domini generally values disclosure of business transition strategies to reduce GHG emissions in the overall assessment of a portfolio company's ability to identify, respond to, and mitigate risks. This approach may result in a portfolio of companies with high GHG emissions, but such companies may also have a credible, time-bound, science-based approach to reduce their emissions. In another example, companies may have a business model to develop products and services that will play a valuable role in the decarbonization of the economy through the production of solar energy, but which may have high GHG emissions. As a result, the fund's aggregated GHG emissions might appear high relative to the companies in other funds' portfolios as a stand-alone data point. In this situation, the proposed reporting metrics might give investors the impression that the aggregated fund level GHG emissions alone should be the basis for comparing two different fund's commitment to sustainability, but such an approach would not capture Domini's overall assessment of companies' transition strategies to reduce GHG emissions.

We note that the proposed disclosure practices are generally aligned with Domini's existing voluntary reporting on GHG emissions in its Annual Impact Report. While best efforts are made to calculate GHG emissions and emissions intensity using available data and credible estimates, the proposed reporting requirements would however put ESG-Focused Fund's in the difficult position of including metrics in a regulatory filing that are dependent on data from portfolio companies that is not yet mandated for disclosure in a regulatory filing. Because inclusion of such reporting in a regulatory document could place significant litigation risk regarding the accuracy of such disclosure on an ESG-Focused Fund we suggest that funds be provided a safe harbor from liability for reporting metrics that are necessarily dependent on third-party data. We believe funds should be protected from potential liability relating to the accuracy or reliability of the aggregated GHG emissions data when that accuracy and reliability depends on data supplied by a third party. The safe harbor should be available, regardless of the source of the data and even if the data is not in a company's regulatory filing. We support the addition of a safe harbor for funds similar to the protection the Commission proposed with respect to public companies reporting scope 3 GHG emissions.

As we stated in our comment letter on the SEC's proposal for climate-related disclosures by public companies, "[i]n the absence of scope 3 emissions reporting, it is difficult to quantify the real climate impact of a company and climate targets may have very limited value." While we support the mandatory corporate reporting of Scope 3 GHG emissions, we recognize that due to the current data gaps and an absence of agreed-upon methodologies for companies to measure Scope 3 GHG emissions, there may currently be limited ability and value to disclose this information as the corporate disclosure landscape on GHG emissions improves, the quality, comparability, and consistency of this data among funds will also be enhanced.

Expansion of Required Disclosure for ESG Focused Funds

As an impact investor with the goal of improving outcomes for people and planet, while we recognize that GHG emissions are important, we do not believe it is the only priority topic that an ESG fund should be required to disclose related to its progress. We encourage the Commission to identify other commonly held, priority topics, for example related to diversity, worker health and safety, human rights, or access, which would better allow ESG investors to compare "ESG" funds.

Impact Funds

The proposal defines a sub-set of ESG-Focused funds known as Impact Funds and applies an additional set of disclosure obligations to such funds. Impact Funds are described as ESG-Focused Funds that seek to achieve a specific ESG impact or impacts at the fund level and the proposal requires any fund that meets this definition to disclose as part of its investment objective "the ESG impact that the Fund seeks to generate with its investments."[11] As proposed, Impact Funds would also be required to describe how the fund measures progress toward the specific impact, including with key performance indicators.

Impact Funds Definition Needs Clarification

We agree with the Commission's view that an "Impact Fund" subcategory of ESG-Focused Funds will be helpful and beneficial to investors in their consideration of ESG funds. However, **we believe the proposal for "Impact Fund" should also include funds with broader intentionality (i.e., promotion of universal human dignity) in its investment process rather than its current limitation of achieving specific outcome of key performance indicators with measurement and time bound targets (i.e., reduction of greenhouse gas emissions by 10% in the next five years)**. As demonstrated by our investment process summary set forth above, there is significant intention and consideration of "impact" in our approach. Broadening the definition of "Impact Fund" to capture funds that have impact intentionality, in addition to those that seek specific ESG outcomes, would benefit investors.

Given its exclusive focus on impact investing at the firm level, Domini's investment process for each Fund aims to help drive positive impacts for our planet and its people that are aligned with our Impact Investment Standards generally, but some funds may not necessarily seek a specific ESG impact or outcome that is measurable over a specific time horizon. For example, one of the Domini Funds seeks to invest in companies which address the following sustainability themes through their business model: accelerate the transition to a low-carbon future, contribute to the development of sustainable communities, ensure access to clean water for drinking and sanitation, support sustainable food systems, promote societal health and well-being, broaden financial inclusion, and bridge the digital divide and expand economic opportunity. Through the firm's evaluation of company disclosures and our in house

[11] See Proposed Instruction to Item 2 and Proposed Item 4(a)(2)(i)(C) of Form N-1A and Proposed Item 8.2.e(1)(C) and Proposed Instruction 10 to Item 8.2.e(2)(B) of Form N-2.

research process, we determine eligibility for investment. This fund employs one form of impact strategy that enables investors to channel their investment dollars into companies addressing these sustainability themes. Domini's impact investing approach may therefore be generally aligned with impact intention, by identifying business models that are fundamentally aligned with our standards for advancing universal human dignity and ecological sustainability, and maintaining positive relationships with stakeholders. However, this is not necessarily based on a specific investment objective or principal investment strategy to achieve specific ESG-related outcomes. As noted above, Domini agrees that it would be appropriate for funds which seek specific impact-related outcomes to provide additional information to investors, but we believe that the scope of the proposed Impact Fund definition could inadvertently exclude impact-aligned funds from the opportunity to report on their strategy for seeking and advancing impact in a regulatory document.

Regulatory Disclosure Requirement for Impact Funds

We note that Domini voluntarily reports on its progress in an Annual Impact Report which is available on our website and distributed to certain shareholders and is currently treated as marketing material. Consequently, many of our distribution intermediaries will not permit Domini to share its Annual Impact Report with our indirect shareholders as some intermediaries do not permit non-regulatory materials to be passed through to their clients. Since we consider the Annual Impact Report an important operational report on the impact of each fund's portfolio, we would welcome the opportunity to include this reporting in a regulatory document that is required to be distributed to fund investors. This type of disclosure requirement would allow an impact-aligned fund to keep its investors, whether direct or indirect, up to date on the impact performance of their investment.

In addition, we note that the proposed reporting obligations for Impact Funds contemplate that a fund would measure its progress at an aggregated fund level, when funds today measure impact in other ways such as the progress of individual investments on environmental or social topics, or their engagement efforts on ESG matters. We recommend that the reporting obligations applied to an Impact Fund be modified to ensure enough flexibility for an Impact Fund to measure and communicate its progress in a manner that is consistent with its principal investment strategies and the other significant ESG strategies utilized by the fund and that such reporting should allow impact-aligned funds to report on their progress in a regulatory document.

Domini Supports Modifying the Proposed Fund Disclosure Requirements

Domini supports modification of the proposed definition of ESG-Focused Fund to be a fund whose stated principal investment strategies indicate that the fund focuses in a significant manner on one or more ESG factors. Under this approach, a fund whose stated principal investment strategies focuses on one or more ESG factors would then be required to provide disclosure in an ESG Strategy Overview Table in its prospectus and certain enhanced disclosures in the statutory prospectus. In addition, only funds presenting the ESG Strategy Overview Table in their prospectus would be allowed to describe themselves as an "ESG" fund in regulatory or marketing material. We expect this approach will help

mitigate the risk of greenwashing because only funds that include the ESG Strategy Overview Table in their prospectus would be permitted to describe themselves as an "ESG" fund.

These proposed modifications would eliminate the need for the proposed definition and mandated disclosure pertaining to Integration Funds. Domini supports the elimination of enhanced disclosure obligations for Integration Funds rather than adjusting the definition or disclosure obligations of Integration Funds. Domini believes that the inclusion of the ESG Strategy Overview table in the prospectus of ESG-Focused Funds and the appearance of the table would be a sufficient signal to investors that certain funds are "ESG" funds and enhanced disclosures for these funds would facilitate investor understanding of ESG-Focused Funds' principal investment strategies. If modified as suggested, funds that integrate ESG factors into their investment process could continue to provide disclosure regarding their consideration of ESG factors following the existing disclosure framework, but they would not be permitted to include the ESG Strategy Overview table in their prospectus, describe itself as an "ESG" fund, nor include a term in its name that suggests that it is an "ESG" fund. This modification to the Integration Fund approach should mitigate the risk of greenwashing due to the limitations put on such funds.

Domini supports a modification to the ESG Strategy Overview Table. We agree that an ESG-Focused Fund should provide the information required in the proposed first row of the ESG Strategy Overview table, but suggest that such Funds provide a concise description of the ESG factor(s) that are the focus of the fund's principal investment strategies in a few sentences. We support eliminating the other two rows of the ESG Strategy Overview table as they would require disclosure of overly detailed information inconsistent with the purpose of a summary prospectus. We suggest that the statutory prospectus disclosures be modified to require an overview of the identified ESG strategies employed by the fund rather than the details proposed in the table.

We agree that a fund should explain in general terms any internal methodology used and how that methodology incorporates ESG factors, but we do not believe that a fund should be required to disclose proprietary information about the fund manager's investment process.

Proposed Adviser Disclosure Requirements

The proposal contemplates additional disclosure requirements for advisers regarding their ESG-related services and strategies. Domini supports requiring advisers to summarize a description of their ESG-related services and strategies consistent with the final definitional approach and disclosure regime applied herein to promote consistency in disclosure.

Compliance Dates

Given the significant nature of the proposed disclosure changes Domini supports an extension of the proposed required compliance dates for prospectus disclosure to a minimum of two years, and for annual report or other disclosures to three years. All funds will need time to analyze new disclosure obligations, implement required changes into their disclosure and reporting workflows, and develop updated policies

and procedures to ensure proper implementation. We also note any new categories of funds would likely require additional time for investor education and communication. We support the permission of early voluntary compliance by funds that are ready to implement required changes at an earlier date.

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We thank you for the opportunity to comment and for your attention to these important matters.

Sincerely,

Carole M. Laible
Chief Executive Officer
Domini Impact Investments LLC