T. Rowe Price®
INVEST WITH CONFIDENCE

Filed electronically via email (rule-comments@sec.gov)

August 16, 2022

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

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:

T. Rowe Price[1] appreciates the opportunity to express our views on the Securities and Exchange Commission's proposal to require certain investment advisers and investment companies to provide additional information regarding their environmental, social, and governance (ESG) investment practices.[2] As sponsor and investment adviser to over 200 proprietary mutual funds and exchange-traded funds (T. Rowe Price Funds), we have considerable interest in enhancements to the current disclosure framework that addresses how investors view important information that effects their investment decision. While we generally believe that the current disclosure framework works well to provide investors with pertinent and relevant information, we understand the Commission's concerns with exaggerated ESG claims as investors show increasing interest in ESG investing. We support the Commission's focus on promoting comparable, consistent and reliable information for investors about various ESG approaches and practices that increases the efficiency and reliability with which investors can find a fund or adviser that meets their investing preferences.[3]

We share concerns with fellow members of the industry as represented by the Investment Company Institute (ICI) and the Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA-AMG), whose comments we broadly support, that certain aspects of the proposal may be overly complex and prescriptive and unnecessarily depart from the Commission's traditional approach to disclosure. We are writing individually only with respect to one question where there may be a difference in opinion among members. As reflected by the comments submitted by the trade associations, some asset managers may advocate for the elimination of the Integration Fund category from the enhanced disclosure rules, reasoning that the goals of the Commission to reduce the risk of greenwashing and enhance investor understanding of ESG funds can be achieved through the enhanced disclosure of only ESG-Focused Funds. We disagree.

---

[1] T. Rowe Price Associates, Inc. and its affiliates (T. Rowe Price) serve as investment advisers to numerous individuals, institutions and pooled investment vehicles around the world, with $1.31 trillion in total assets under management as of June 30, 2022.

[2] Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices Release No. IA-6034, 87 Fed. Reg. 36654 (proposed May 25, 2022), ***available at*** https://www.sec.gov/rules/proposed/2022/ia-6034.pdf.

[3] *Id*. at 18.

T. Rowe Price Associates, Inc.
www.troweprice.com
T 410-345-2000
T 800-638-7890
100 East Pratt Street
Baltimore, MD 21202-1009
P.O. Box 89000
Baltimore, MD 21289-0316

We appreciate the Commission's efforts to establish an appropriately calibrated disclosure framework along the full spectrum of ESG investment practices and welcome the guardrails such a rule would provide. In that context, we believe that the integration of ESG factors into the investment analysis can be a distinct and specialized capability that should be recognized under the rubric of ESG investment practices with its own category. Eliminating the Integration Fund category would result in an incomplete ESG disclosure framework that would ultimately impede investor awareness and understanding of the full range of investment products available to them. For these reasons, which are explained more fully below, we urge the Commission to retain the Integration Fund category in the final rule. We offer minor modifications to the disclosure requirements with respect to the Integration Fund category to better reflect the pertinent characteristics of an Integration Fund.

1) Integration of ESG factors into the investment analysis can be a distinct and specialized capability that should be recognized under the rubric of ESG investment practices with its own category.

Consideration of ESG factors in investment management is certainly not new and ESG integration is becoming increasingly mainstream. Academic and empirical evidence suggest, and most investment professionals believe, that integrating information about ESG risks and opportunities in the investment analysis can lead to better risk-adjusted returns and long-term value creation. To that end, advisers have heavily invested in resources in terms of people, data and systems to develop innovative ESG integration capabilities.

For example, at T. Rowe Price, we rely on dedicated ESG specialists, organized across three specialist teams, to help our portfolio managers and analysts to identify, analyze, and integrate ESG factors into their investment analysis in a pro-active and systematic manner. Our active ESG integration approach follows a three-step process to identify ESG factors that may positively or negatively impact an investment thesis. To aid in this process, our ESG specialists have developed a proprietary research tool, the responsible investing indicator model (RIIM), that leverages multiple external quantitative datasets, as well as our own in-house research and data, to create ESG profiles and ratings for companies and issuers tailored across multiple asset classes. This tool proactively searches large universes of ESG data, identifying securities with ESG characteristics, and providing a systematic framework for measuring and comparing the ESG characteristics of individual securities and portfolios. Securities flagged in RIIM may further undergo fundamental analysis by the responsible investing team, including engagement and proxy voting recommendations. Finally, analysts and portfolio managers incorporate ESG analysis, as appropriate, to their investment strategy, balancing the impact of ESG factors in the investment case alongside more traditional investment factors like financial analysis, macro-economic and industry trends, and other qualitative factors. This collaborative process results in our ability to make better investment decisions and pursue better outcomes for our investors.

Our ESG journey began many years ago with a focus on governance, and it has steadily advanced into a distinct and specialized capability integral to our overall investment process. It is still evolving. While most advisers now accept the tenet that evaluation of ESG factors can lead to sounder investment decisions, we would argue that not all advisers' ESG integration practices are the same and not all funds (even those managed by the same adviser) integrate ESG factors to the same extent. For example, as the Commission itself contemplated, funds that engage in fundamental-oriented analysis have long considered governance factors, including board diversity, shareholder resolutions related to climate change, or corporate policies on social and environmental issues – governance factors now commonly accepted as fitting under the "ESG" umbrella. Those funds may or may not be ESG-focused funds or even ESG Integration funds, and we believe that ultimately it should be left up to the adviser, on behalf of each fund, to determine whether such consideration merits inclusion of that particular fund in the ESG-Focused or ESG-Integration Fund categories. We would expect that the disclosure would make clear to the investor why that determination was made, given the types of ESG factors that were considered.

In any event, we firmly believe a fund's or adviser's ESG integration practices may be an important consideration for potential investors. While it is true that the current definition of Integration Funds may capture a significant number of funds, we believe that the proposed disclosure framework strikes an appropriate balance. It would allow funds to calibrate their ESG integration disclosures to their unique practices, while also allowing investors to compare these practices easily across Integration Funds.

2) Eliminating the Integration Fund category would result in an incomplete ESG disclosure framework that would ultimately impede investor awareness and understanding of the full range of investment products available to them.

The Commission recognizes that investment products that incorporate one or more ESG factors vary in the extent to which ESG factors are considered relative to other factors but generally fall along a three-part spectrum: integration, ESG-Focused, and impact investing.[4] We agree with the Commission's designation of the three categories based on the different degrees to which ESG factors are considered. Eliminating the Integration Fund category would effectively create a binary universe of funds, with ESG-Focused Funds on one side and all other funds on a "non-ESG" side. On the "non-ESG" side, any fund that integrates ESG factors using an ESG integration process similar to the one described above but does not make the factors a significant or main consideration in selecting investments, would be viewed the same as a fund that did not consider any ESG factors at all. This would detract from the Commission's aim to promote information for investors about various ESG approaches and practices that increases the efficiency and reliability with which investors can find a fund or adviser that meets their investing preferences.

We agree with the Commission that investor interest in ESG-related products and services has rapidly increased in recent years. We believe, however, that actual interest in ESG-Focused Funds may be more limited than interest for funds with strategies that integrate ESG factors into their investment analysis. Such investors may be seeking funds that align with their core values and beliefs, but perhaps not to the extent that such goals may supersede their financial objectives. Others have expressed a clearly "anti-ESG" sentiment. Undisputedly, investors have highly diverse preferences, and funds should provide sufficient information for investors to select funds that meet their objectives.

3) An appropriately calibrated disclosure framework along the full spectrum of ESG investment practices provides necessary guardrails for funds and advisers.

Under the proposal, the level of detail required by the enhanced disclosure framework would depend on the extent to which a fund considers ESG factors in its investment process. Specifically, Integration Funds would be required to provide more limited disclosures than ESG-Focused Funds (including Impact Funds) which would be required to provide more detailed information in a tabular format.

We agree, at a very high level, that a disclosure framework that calibrates the length and even location of content depending on the category of fund and significance of ESG considerations to the fund's investment strategy

---

[4] *Id*. at 14.

makes sense. With respect to Integration Funds, we welcome the guidance and guardrails the rule would provide on the level of disclosure to include in a fund and adviser's regulatory documents. Without disclosure in its registration statement, a fund, in turn, would not be able to discuss its ESG integration capabilities in advertisements or marketing materials. Moreover, without an Integration Fund category for purposes of a disclosure framework, we would be concerned that any discussion of "ESG" within a fund's prospectus, would suggest that the fund is an ESG-Focused Fund (even if such discussion was not in the tabular format required).

4) Modifications to the disclosure requirements for Integration Funds that would better reflect the pertinent characteristics of an Integration Fund.

The proposal requires an Integration Fund to summarize in a few sentences how the fund incorporates ESG factors into its investment selection process, including what ESG factors the fund considers in the summary prospectus, followed by a more detailed description in the fund's statutory prospectus. The Commission reasons that this layered disclosure approach for Integration Funds would allow investors to review important information in the same location in different funds' prospectuses, while also deterring the overemphasis of ESG factors over other factors which could impede informed investment decisions. We agree with the Commission that a layered disclosure approach using a brief narrative followed by more detailed discussion in the regulatory documents can assist investors to more easily find specific information that they can use to compare funds when making an investment decision.

We question, however, whether the required disclosure in the summary prospectus for an Integration Fund is appropriate based on the instructions to Item 4(a) of Form N-1A.[5] Item 4(a) instructs the registrant to summarize, in relevant part, how the fund intends to achieve its investment objectives by identifying the fund's principal investment strategies. Under the proposal, an Integration Fund is clearly defined to state that such "ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio." We interpret that to mean that it could not be a "policy, practice or technique" that the fund intends to use to achieve its investment objectives. In other words, it is not a principal investment strategy. We wonder if ESG disclosure for an Integration Fund in the summary prospectus would, in fact, overemphasize the role ESG considerations play in the investment process, elevating it to a principal investment strategy of an Integration Fund. We believe that disclosure of a fund's ESG integration approach would better fit under instructions to Item 9(b)(2) of Form N-1A (the statutory prospectus) that broadly requires the registrant to "explain in general terms how the fund's adviser decides which securities to buy and sell…" We would also welcome clarification that additional information about a fund or adviser's ESG integration approach for Integration Funds may be further provided in the fund's statement of additional information.

In addition, under the proposal, Integration Funds that consider Greenhouse Gas (GHG) emissions of portfolio holdings as one ESG factor in the fund's investment selection process would be required to provide more detailed information in the fund's statutory prospectus describing how the fund considers the GHG emissions of its portfolio holdings, including a description of the methodology that the fund uses to consider GHG emissions. The Commission states that the specific disclosure requirements with respect to GHG emissions for Integration Funds is mainly driven by the concern that the demand by some investors for this particular information creates an incentive for funds to overstate the extent to which portfolio company emissions play a role in the fund's

[5] While the proposal discusses requirements for open-end funds, closed-end funds (including business development companies) and unit investment trusts, we are only focusing on open-end funds for purposes of this letter.

strategy. We question whether disclosures required simply based on investor trends and perceived demand make sense in a calibrated framework. Would it follow that additional disclosures will be required when the next hot ESG topic takes hold? In our view, adding specific disclosure about one ESG factor when other ESG factors, alongside other, non-ESG factors, are considered no more significant than other factors in the investment selection process, puts undue prominence on the consideration of GHG emissions. Simply having a statement regarding GHG emissions in an Integration Fund's prospectus may lead investors to believe that GHG considerations play a larger role in the fund's ESG considerations, contravening the Commission's stated goals. Mandated disclosure about GHG emissions may give an investor the misleading impression that environment factors, specifically climate-related factors, are more important than other ESG factors considered.

For the reasons stated above, we urge the Commission to retain the Integration Fund category with the modest modifications proposed if the rule is adopted.

*****

We thank the SEC for its consideration of our perspective. Please do not hesitate to contact us if we can be of further assistance.

Sincerely,

/S/
Sara Pak
Managing Legal Counsel

/S/
Bob Grohowski
Head of Legislative & Regulatory Affairs