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August 18, 2022

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

Submitted via email: rule-comments@sec.gov

Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices Release Nos. 33-11068; 34-94985 / File No. S7-17-22[1]

Dear Ms. Countryman:

Bloomberg L.P.[2] ("Bloomberg") respectfully submits this letter in response to the above-referenced proposal by the U.S. Securities and Exchange Commission ("SEC" or the "Commission") to require registered investment advisers, certain advisers that are exempt from registration, registered investment companies, and business development companies, to provide additional information regarding their environmental, social, and governance ("ESG") investment practices (the "Proposal").

Bloomberg shares the Commission's concern with the lack of reliable, consistent, and comparable information among ESG investment products. ESG factors and the manner in which they are incorporated by registered investment advisers, investment companies, and business development companies (collectively, the "funds") need to match investor expectations. We agree with the Commission that standardization of ESG disclosure practices for investment funds is necessary to provide investors with reliable information about asset managers' ESG strategies so that investors can make informed decisions about the data underlying their ESG claims. We support the Proposal and point to a few areas of consideration for the Commission, specifically those pertaining to the classification of ESG funds, reporting of carbon emissions, and the importance of global regulatory coordination to achieve standardization across jurisdictions.

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[1] Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, SEC Exch. Act Release Nos. 33-11068; 34-94985 (May 25, 2022), *available at* https://www.sec.gov/rules/proposed/2022/33-11068.pdf (the "Proposal").

[2] Bloomberg L.P. is a global leader in business and financial information, delivering trusted data, news, and insights that bring transparency, efficiency, and fairness to the markets. The company helps connect influential communities across the global financial ecosystem via reliable technology solutions that enable our customers to make more informed decisions and foster better collaboration.

THE PROPOSED ESG FUND TYPE CLASSIFICATION SYSTEM

The Proposal seeks to classify investment funds with ESG factors into three categories: Integration Funds, ESG-Focused Funds, and ESG Impact Funds (a subset of the ESG-Focused Fund).[3] The Proposal in its present form does not define "ESG" or similar terms and instead would require the funds to disclose to investors how they incorporate ESG factors into their investment selection processes and investment strategies.[4]

We support the Commission's proposal for classifying investment funds. We note that the Commission may consider providing additional guidance as to what constitutes an "ESG factor." While it would not be necessary to list and define a set of all possible ESG factors, as there is room for innovation on this point and what is considered ESG may evolve over time, it may be helpful for the Commission to consider providing some examples for each of the "environmental," "social," and "governance" factors to give some sense of the breadth of the scope considered. For example, the environmental factors should at least include terms such as "green," "climate," "transition," "net zero," "Paris aligned," "low-carbon," "biodiversity," and "nature," among others. Terms such as "diversity and inclusion" and "human rights" may be included for the social factors, and "reporting transparency" and "remuneration" for the governance factors.

The Commission may also consider providing additional guidance on non-equity asset classes. For example, while an equity strategy may primarily assess engagement and proxy issues, it would be helpful to have additional examples on the application of the fund categories in the context of fixed income – such as the use of proceeds, products, and sustainability linked outcomes – as well as sovereign investments, structured instruments, and commodities. The Commission should take into account the fact that the application of ESG information varies by investment asset class, and a prescriptive fund classification approach may harm innovation in more difficult to apply asset classes.

In this regard, it would be helpful to consider the impacts of the Proposal on fixed income investors and issuers. The breadth of the asset class, spanning corporate issuers, municipals, sovereigns, agencies, and structured securities, will require careful consideration as to how the disclosure rules are both relevant for decision-making, and relevant for improving transparency for investors. For example, sustainability factors are not comparable for residential mortgages, development banks and water municipals. Disclosure rules should be appropriately tailored to the asset class and type of issuer or else they may place additional financial burdens on issuers (such as hospital and universities) and not create much added value or impact. Disclosures should be relevant for the asset class and not solely align with listed corporates.

[3] Proposal at 14.

[4] Proposal at 24-25.

We also note that it may be possible for the names of the categories themselves to cause confusion for some investors. For example, the Proposal defines "Integration Fund" as a fund that "considers one or more ESG factors alongside other, non-ESG factors in its investment decisions, but those ESG factors are generally no more significant than other factors in the investment selection process, such that ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio."[5] Here, the term "considers" may need to be clarified within the definition of Integration Fund as it can be multi-layered and encompass exclusion, investigation, escalation, and ultimately engagement. Similarly, a retail investor may be confused by the term "integration" itself and perceive that ESG factors are *integrated* into the investment decision-making via the categorization of the fund, even though ESG factors have no bearing on the fund construction or asset selection. In our experience, nearly all professionally managed investment strategies will apply some level of ESG incorporation.

The Commission may also consider requiring funds to specify whether they consider ESG from a financial materiality (i.e., the ESG risk to a company) or an impact (i.e., the ESG contribution of a company) perspective. To provide additional clarity, the Commission may consider requiring this disclosure on the approach of funds and advisers.

There is also the risk that funds, to avoid accusations of greenwashing, may put themselves in a lower category than they are eligible for. This is also a concern in the EU, where the SEC's categorization of "Integration Fund" and "ESG Focused Fund" is comparable to those under Article 8 and Article 9 of EU's Sustainable Finance Disclosure Regulation ("SFDR").[6] SFDR requires standardized disclosures on how ESG factors are integrated at both entity and product level. All in-scope products and accounts must be classified under three categories: Article 6, Article 8, and Article 9. The definitions of the categories are quite broad. Article 6 covers funds that do not integrate any kind of sustainability into the investment process. Disclosures under Article 8 apply to products that promote environmental or social characteristics, and disclosures under Article 9 pertain to those with a sustainability investment objective. In the EU market, the data requirements for Article 9 funds are relatively high and it appears that many are disclosing under Article 8 to reduce the reporting burden. The result is that Article 8 funds now may be represented by a broad category of funds encompassing those with simple exclusions to fully integrated ESG strategies.

Should a fund need prescriptive ESG data to evidence its accreditation in its reporting category, consideration should be given to data availability. If accompanying regimes such as the International Sustainability Standards Board's ("ISSB")[7] or equivalent ESG reporting regimes

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[5] Proposed Item 4(a)(2)(i)(A) of Form N-1A; Proposed Item 8.2(e)(1)(A) of Form N-2.

[6] *See* Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 Nov. 2019 on sustainability-related disclosures in the financial services sector and Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 PE/20/2020/INIT.

[7] ISSB was established at COP26 to develop a comprehensive global baseline of sustainability disclosures for the capital markets. As part of an international effort to avoid fragmentation and deliver more consistent, comparable,

are providing the data, any reporting obligation of the financial market participant should be effective after the data is made publicly available. The treatment of non-disclosure in terms of evidencing compliance with ESG reporting requirements would be important in guiding materials.

CONTENT OF THE DISCLOSURES

Carbon Emissions Reporting and the Task Force on Climate-related Financial Disclosures

We support the Proposal's consideration of the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").[8] The TCFD, an industry-led task force created by the Financial Stability Board, offers a high level, globally accepted framework on which to structure and base disclosure standards and reporting requirements for companies and other organizations, including funds, through their existing reporting processes. TCFD recommendations can play a role in driving corporate actions toward a low- and zero-carbon economy, and its recommendations – designed to be adoptable by all types of companies across sectors and jurisdictions – are flexible enough to accommodate evolving practices.[9]

We are pleased to see that the Commission has adopted TCFD's recommendations, especially with regard to the requirements for carbon footprint and weighted average carbon intensity ("WACI"). We do note that there may be an asset class bias towards equities in carbon emissions reporting and that the relevance of carbon footprint and WACI may not be clear across all areas of fixed income. Those aligning with the TCFD recommendations in this regard should be

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and reliable climate-related information to investors, the IFRS Foundation announced the ISSB in November 2021 to develop climate-specific disclosure standards based on the recommendations of the Task Force on Climate-related Financial Disclosures. The ISSB will develop standards that provide a comprehensive global baseline of sustainability disclosures so that they can be mandated and combined with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors. ISSB recently published its exposure drafts of climate-related disclosures. *See* Exposure Draft IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (Mar. 2022), *available at* https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-relateddisclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financialinformation.pdf; Exposure Draft IFRS S2 Climate-related Disclosures (Mar. 2022), *available at* https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.

[8] The TCFD is chaired by Michael R. Bloomberg, founder of Bloomberg L.P. TCFD members represent large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies. The TCFD has developed recommendations for more effective climate-related financial disclosures to promote more informed investment, lending, and insurance underwriting decisions. For more information on the TCFD, please see https://www.fsb-tcfd.org/.

[9] TCFD recommendations – built upon the four core pillars of governance, strategy, risk management, and metrics and targets – are meant to provide comparable, consistent, and decision useful climate-related information to global markets. As of the date of this letter, TCFD has over 3,797 supporters globally – including 1,452 financial institutions – responsible for assets of approximately $216.2 trillion. TCFD supporters span 96 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of $26.7 trillion.

cognizant that the methodologies are still not widely practiced and a prescriptive approach may lead to unintended consequences for fixed income.

Under the Proposal, an Integration Fund that considers greenhouse gas ("GHG") emissions as an ESG factor would need to report additional information on that factor, including a description of the methodology it uses in its consideration of GHG emissions.[10] The Proposal could be clearer on what is required, including at least:

- the scope of emissions considered;
- the types of GHG emissions considered (CO_2 only or others);
- whether the fund considers reported or estimated GHG emissions;
- if reported emissions are used, the approach used by companies that do not report GHG emissions; and
- the asset class(es) in question.

We note that considerations of GHG emissions should have clear pathways and outcomes defined in the investment processes. For example, strategies for equities involve either risk mitigation (concerns with carbon price increases) or climate mitigation (concerns with investing to support a decarbonized pathway to achieve a given goal, *e.g.,* net zero). In this regard, perhaps GHG strategies should belong in the ESG-Focused Funds or ESG Impact Funds only as there should not be other "integration" of GHG emissions in funds.

In addition, we encourage the Commission to consider reporting of both enterprise value including cash ("EVIC") and revenue denominated carbon footprint. We believe that carbon footprinting should have a clear and well-defined methodology to allow asset owners to compare between products and between managers. We recognize that the use of WACI tries to achieve this, but also note that the WACI methodology could favor the larger listed companies and, therefore may have the potential to unfairly represent decarbonization for a company whose profitability improved with no real impact on their emissions profile. EVIC is a model used for European reporting of carbon footprints, which the Commission may also consider. This would make funds in both Europe and the U.S. more comparable. Applying a methodology that aligns with international developments and other jurisdictions would allow larger, international investment firms to utilize a standardized carbon footprinting methodology for all impacted products and for application of carbon transition benchmarks to funds pursuing low carbon strategies.

It should be noted that methodologies for private companies and fixed income securities are still in their infancy. Industry guidance on the use of permitted estimates where reported data is not available would be welcomed. Since any estimates model should not discourage reporting, an estimate should apply the precautionary principle and be larger than the expected true reported figure. This is especially noteworthy for carbon emissions reporting.

[10] *See* Proposed Instruction 1(b) to Item 9(b)(2) of Form N-1A; Proposed Instruction 9.a(2) to proposed Item 8.2.e(2)(B) of Form N-2.

Incorporation of Fund's ESG Factors in Investment Decisions

Under the Proposal, ESG Focused Funds and Impact Funds would be required to disclose how ESG factors are incorporated into their processes for evaluating, selecting, or excluding investments.[11] In addition, we believe that funds should disclose how often they review their investments according to their ESG criteria, and how frequently their investments are updated as a result of those reviews. There may be cases where tracking is done in real-time (e.g., when based on external ratings), but there may also be cases where tracking is analysis intensive and only happens periodically.

FORMAT OF THE DISCLOSURES

We support the Commission's Proposal to require funds to tag the proposed disclosures in a structured, machine-readable data language.[12] We especially appreciate that the Proposal would require ESG Focused Funds and Impact Funds to provide more detailed disclosures in a tabular format via the proposed ESG Strategy Overview Table. It is important that disclosures are digital, contain machine-readable information that is common and comparable, and requiring the disclosures to be made in a check box format would make it easier to collect and analyze the gathered information. We do note that the disclosure format may also need to take asset class differences into consideration.

THE NEED FOR GLOBAL COORDINATION REGARDING ESG DISCLOSURES

As the Commission notes in the Proposal, disclosure reporting frameworks that incorporate environmental measures are increasingly being implemented by regulators across jurisdictions.[13] To facilitate globally integrated capital markets, international financial regulators should ideally strive for a common set of regulatory terms and definitions as well as data requirements, including metrics, portfolio composition, and reporting standards. Standardization is of utmost importance for any types of ESG or climate-related disclosures to be effective and useful, and due consideration should be given to how the Proposal's disclosure requirements will interact with those of other international regulations.

For example, as previously noted, the Proposal's categorization of investment funds is comparable to those under the EU's SFDR. Market participants may find it helpful to be able to assess the SEC's fund categorization against the SFDR's Article 8 and Article 9 definitions. This may reduce the risk of confusion in the market, and the cost of marketing U.S. funds in the EU (and vice versa), as well as reporting burdens across jurisdictions. A comparison – if not an alignment or equivalence – mechanism may be considered in this regard, especially since many

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[11] Proposal at 43.

[12] Proposal at 21.

[13] Proposal at 11.

large international investment management firms are already developing capability to report against the EU standard via the European ESG Template ("EET").[14]

To improve global coordination of ESG disclosures, the Commission may also consider reporting of a common set of ESG information similar to the standard minimum set of disclosures in Europe, such that fund performance against a common set of metrics can allow for better comparison tools. However, any effort to align for listed equities and corporate fixed income should be cognizant that the EU standards have attempted to create harmonization across markets, but also created significant data gaps and challenges in the process. Further guidance may be needed on meaningful base metrics that could be used to show the investment's impact on:

- overall GHG emissions and carbon footprint;
- impact to water use and contamination;
- impact to waste generated and waste managed;
- use of oil, gas, solid fossil fuels as a share of revenue within the investee company;
- investment in companies without adequate social safeguards (compliance with the United Nations Guiding Principles on Business and Human Rights, United Nations Global Compact, International Labor Organization, and Organization for Economic Cooperation and Development guidance); and
- board of employee level diversity metrics.

CONCLUSION

Standardized disclosures on the ESG practices of funds are necessary to achieve comparability, consistency, and reliability among various ESG asset management practices and products. This will allow investors to compare products and accurately price risks and opportunities associated with ESG practices and bring greater transparency around ESG. We thank the Commission for taking the important first step bring clarity to how funds are using ESG factors in their investment decisions and rein in the problem of greenwashing. We appreciate your willingness to consider comments on the Proposal and would be pleased to discuss any questions that you may have with respect to this letter.

Thank you.

Very truly yours,

Gregory Babyak
Global Head of Regulatory Affairs, Bloomberg L.P.

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[14] EET is meant to facilitate the necessary exchange of data between product manufacturer and distributor for the purpose of fulfilling ESG-related regulatory requirements in the EU. For more information on the EET, including downloadable templates, please see https://findatex.eu/.