



VIA ELECTRONIC SUBMISSION

August 16, 2022

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

Re: File No. S7-17-22
Enhanced Disclosures by Certain Investment Advisers and Investment Companies about
Environmental, Social, and Governance Investment Practices

Dear Ms. Countryman:

Invesco Ltd. (“**Invesco**”) appreciates the opportunity to provide comments to the U.S. Securities and Exchange Commission (the “**Commission**”) on its proposed rule relating to disclosure requirements for registered investment funds and investment advisers related to environmental, social and governance (“ESG”) investment strategies (the “**Proposed Rule**”).¹

Invesco is a leading independent global investment manager with approximately \$1,449.0 billion in assets under management as of July 31, 2022. Invesco has specialized investment teams managing investments across a comprehensive range of asset classes, investment styles and geographies, tailored to the needs of institutional and retail investors. In addition to our offerings in equities, bonds and real assets, we have multi-asset strategies and liability-driven investments. Invesco’s indirect wholly-owned U.S. registered investment adviser subsidiaries, including Invesco Advisers, Inc. and Invesco Capital Management LLC, advise or sponsor open-end mutual funds, closed-end funds, exchange-traded funds, collective trust funds, separately managed accounts, real estate investment trusts, unit investment trusts and other pooled vehicles.

I. Executive Summary

Invesco is supportive of the Commission’s efforts to improve transparency and disclosure related to ESG investment strategies. As investors, we believe that access to reliable and meaningful disclosures on ESG is becoming increasingly important for investors and asset managers and we welcome initiatives to enhance the availability, quality and reliability of such disclosures. While Invesco generally supports the positions stated in the Comment Letter

¹ See Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, Release Nos. IA-6034 and IC-34594 (May 25, 2022) (the “Release”).



submitted by the Investment Company Institute (the “ICI”), Invesco is writing separately to provide its views on specific elements of the Proposed Rule. Invesco’s views and suggestions are summarized below:

- Invesco supports the Commission’s approach to allow funds to define ESG and similar terms.
- Invesco requests that the Commission consider existing international standards as part of any rulemaking.
- Invesco supports a layered approach to disclosure; however, believes prescriptive requirements are unnecessary, as the current regulatory framework of Form N-1A and the materiality standard provide a framework for the placement and level of disclosures on ESG strategies and/or processes.
- Proposed Integration Fund Disclosure:
 - Invesco supports the inclusion of this category, but believes the proposed definition is overly broad and recommends a more tailored definition.
 - Invesco believes the requirement to include disclosure in the summary prospectus could overstate a fund’s use of ESG in its investment process. Instead, we believe the Commission should enable funds to add disclosure regarding ESG integration in either the summary prospectus, statutory prospectus or SAI as appropriate under current laws and regulation.
 - Invesco believes the requirement to list the ESG factors considered could constrain portfolio managers’ flexibility in managing funds and become outdated, increasing costs and confusion for shareholders when supplements would be required to update such list.
- Proposed ESG-Focused Funds’ Summary Prospectus Disclosure:
 - Invesco supports a designated category, however, believes the undefined terms in the Commission’s proposed definition could cause this category to be overinclusive and inconsistently applied.
 - Invesco believes that a separate category for Impact Funds is not necessary, as impact investing could be treated as one of the strategies within the ESG-Focused Fund category. Invesco also believes that the definition of an impact strategy should either be limited to direct investing or utilize the definition set forth by the Global Impact Investing Network (GIIN).
 - Invesco supports requiring disclosure of key information in the summary prospectus, but believes that narrative explanation is more appropriate than a check-the-box table.
 - If the Commission nonetheless moves forward with requiring a table, Invesco maintains the following views with respect to the content of the table:



- Recommend permitting a narrative description within the table itself;
 - Believe that the hyperlink to the statutory prospectus should be eliminated;
 - Recommend removal of stating the percentage of net assets for which an inclusionary or exclusionary screen applies, as this could fluctuate due to market movement, a change in security classification or other reasons and therefore cause stale disclosure and increased supplements;
 - Request that the Commission further define the proxy and engagement categories, as unclear criteria may foster inconstancy across the industry and hinders investors' ability to use the information provided by the table in a meaningful and evaluative way; and
 - Recommend removal of listing third party frameworks, as these are entirely voluntary and have varying levels of commitment, responsibilities and requirements depending on the particular framework.
- Proposed ESG-Focused Funds' Statutory Prospectus Disclosure
 - Invesco supports enhanced disclosure for ESG-Focused Funds, however, believes the proposed requirements are overly prescriptive in mandating certain detailed information in the following ways:
 - Describing internal methodology could entail disclosures of proprietary information about the investment process.
 - Disclosing the scoring or ratings system of any third-party data provider, such as a scoring or ratings provider, used by the fund, including how the fund evaluates the quality of such data, presents concerns that (i) this could suggest to investors that the ESG-related providers play a larger role than other data providers, (ii) could be seen as favoring certain third-party data providers over others, and (ii) could constrain portfolio manager flexibility to include data from an additional service provider or change a provider without needing to file a prospectus supplement.
 - Information on the objectives a fund seeks to achieve with its engagement strategy, including time horizon for progressing on such objectives and any key performance indicators that the fund uses to analyze or measure of the effectiveness of such engagement may lead to mischaracterization or misperception of a fund's ESG engagement.
 - Index Funds:
 - Invesco believes that a separate category with different disclosure requirements for index funds is warranted, as level of disclosure required



under the Proposed Rule would oblige an index fund to provide a level of detail more appropriate for the index provider's methodology disclosures.

- Funds of Funds:
 - Invesco believes that a separate category for fund of funds is appropriate, as there are complexities with the definition of Integration Fund, ESG-Focused Fund or Impact Fund that would make the top-level fund in a fund of funds structure difficult to categorize, treated inconsistently in the industry and confusing to investors. Notably, it is unclear how many or what portion of underlying funds must be Integration Funds or ESG-Focused Funds to warrant the top-level fund also being considered in that category. The check box requirement for proxy voting and engagement is problematic for the same reason, and it is also unclear how information would be aggregated.
- Unit Investment Trusts
 - Invesco agrees with the Commission's proposition that there is no need to distinguish between an integration model or an ESG-focused model for a UIT, however, we believe that any disclosure requirements are appropriate solely at the time of inception when the portfolio is selected.
- Annual Report Disclosure Requirements:
 - Invesco believes that a metric such as percentage of ESG-related voting matters for which the fund voted in furtherance to be overly prescriptive and potentially provides inaccurate information to investors regarding a fund's ESG-related proxy efforts.
 - Invesco believes that reporting the number of issuers and ESG engagement meetings overlooks the subjective nature of engagements and may cause potentially inaccurate information.
 - Invesco believes the definition of an Impact Fund should be limited to funds that seek to achieve an impact through direct investing, as this is the type of strategy for which progress towards achieving such impact can be described and measured.
 - Invesco believes that requiring greenhouse gas (GHG) emissions metrics for Integration Funds may place undue prominence on GHG emissions, when this is one factor of many ESG and non-ESG factors considered. Invesco supports the proposed calculation methodology, however, we would respectfully request that the Commission revise the Proposed Rule to provide enhanced international interoperability, namely, that funds which already report GHG emissions in line with another jurisdiction could maintain the use of that methodology. We also request that the Commission consider sequencing these requirements to ensure that the corporate climate



disclosures are already in effect as of the compliance date of this requirement.

- Form N-CEN:
 - Invesco requests clarification on several of the Form N-CEN requirements, namely (i) whether a fund would be required to state if it considers E, S or G as part of its strategy or to specifically list all of the factors within each of those; and (ii) to what the LEI refers in the index fund context. Additionally, Invesco believes that the requirement to identify the name of ESG providers could place undue prominence of ESG data over other data.
- Inline XBRL:
 - Invesco believe that the cost to shareholders outweighs the utility of the Inline XBRL with respect to UITs, and would therefore request that this be eliminated for this type of fund.
- Adviser Brochure:
 - ADV Part 2A: Invesco believes that the requirement to add specific disclosures regarding ESG integration and/or ESG strategies without any delineation between these categories could lead to a large volume of ESG disclosures, particularly for advisers that manage many different types of funds along the ESG spectrum. This volume of disclosure could lead investors to believe that ESG strategies are more significant than other strategies which is counter to the Commission's definition of Integration funds, and not always accurate for ESG-Focused Funds that may employ multiple strategies. We would support an alternative approach to require this disclosure solely for any adviser-wide methodologies, such as a centralized research platform, ratings system or data analysis.
 - ADV Part 1A: Invesco respectfully requests that the Commission eliminate the requirement to provide information on the use of ESG factors and third-party ESG frameworks for separately managed accounts, as clients choose the focus of an SMA strategy, and therefore, this level of detail could entail disclosing a client's confidential information.
 - With respect to the proposed requirement to disclose whether the adviser has related persons that are ESG providers, we respectfully request that the Commission provide a clearer definition of ESG provider.
- Compliance Dates and Procedures
 - Invesco respectfully requests additional guidance regarding the nature and type of compliance policies and procedures discussed in the Commissions' guidance.



- Invesco respectfully requests that the Commission consider extending the time period, as we believe that a two-year time period would be a more appropriate compliance period.

II. Proposed Prospectus ESG Disclosure Enhancements

1. Allowing Companies To Define ESG

Invesco supports the Commission’s approach in not defining ESG or similar terms in the Proposed Rule. ESG investing is evolving rapidly—funds may approach ESG in novel ways and what constitutes an E, S or G factor is likely to shift or expand over time. Additionally, it is important that managers be able to comply with regulations in different jurisdictions around the world in a consistent manner. Enabling managers to define for themselves what constitutes ESG allows for a globally consistent approach and also avoids inconsistencies between existing and developing frameworks. Instead, requiring funds to “disclose to investors (1) how they incorporate ESG factors into their investment selection processes and (2) how they incorporate ESG factors in their investment strategies”² is an appropriate approach overall, subject to our comments below regarding specific proposed disclosure requirements in the Proposed Rule.

2. Consistency with International Requirements

As a global firm with a global client base investing in assets around the world, we support the need for regulatory requirements to be aligned to international frameworks, so that information provided to investors can be consistent and reliable. The TCFD, together with other voluntary sustainability reporting standards, has already had significant success in developing a climate-related reporting framework that is increasingly the reference for investee companies, investors and increasingly policymakers and regulators. We are now seeing a number of jurisdictions introducing mandatory climate and sustainability reporting obligations, including in the US, Canada, the EU, the UK, and Hong Kong. While many of these requirements are based on the TCFD, they differ significantly in terms of breadth and granularity of requirements. We believe that mis-alignment of regulatory requirements could create sub-optimal outcomes for investors and investee companies alike, including: (i) Inefficient allocation of capital based on lack of reliable data on financially material environmental, social and governance risks and opportunities, which could impact particularly smaller companies and emerging markets, and (ii) Increased administrative costs from duplicative or inconsistent reporting requirements across different jurisdictions. Therefore, we respectfully request that existing international standards be considered as part of the thoughtful work of the Commission in any rulemaking.

3. Layered Approach to Disclosure

² *Id* at page 24.



ESG investing includes a range of approaches. Therefore, we agree that it is appropriate for any regulation to provide a range of required disclosure that depends on the type or significance of ESG strategies or processes utilized by funds. However, we believe the current regulatory framework provides such layered approach. Form N-1A Item 4(a) requires a fund to identify its principle investment strategies in the Summary Section of the Prospectus.³ If an ESG strategy is a principal strategy of a fund, therefore, it is already required to be disclosed in the summary prospectus, and described in more detail in the statutory prospectus.⁴ If not principal, but yet still a strategy that the fund may use, it would be disclosed in a fund's statement of additional information.⁵ Further, the concept of materiality currently provides for disclosure of information that would be material to a reasonable investor's informed decision-making, a well-established concept utilized in securities laws⁶. For example, if a fund incorporates E, S or G factors in a systematic manner, using a robust process to evaluate those factors, and applies that incorporation consistently to a significant portion of the portfolio, then the fund could consider this to be a material part of the investment process. In such a case, the fund would disclose the incorporation of ESG factors in its summary and statutory prospectus. However, for a fund that considers an E,S or G factor here and there, in an ad hoc fashion, this would not to be material to the investment process, and therefore prospectus disclosure would not be appropriate. In this case, the fund would include disclosure in its statement of additional information. The combination of the existing N-1A requirement and the materiality concept provides a disclosure framework with a layered approach as to the placement and level of disclosures on ESG strategies and/or processes. Therefore, while we support the overall layered approach to disclosure of the Proposed Rule, we do not believe that prescriptive requirements, as detailed further below, are necessary to provide investors with an adequate level and prominence of information on a fund's use of ESG strategies and/or processes.

4. Proposed Integration Fund Disclosure

Invesco supports the Commission's inclusion of a category for ESG Integration. However, we believe the proposed definition as a fund that "...considers one or more ESG factors along with other, non-ESG factors in its investment decisions, but those ESG factors are generally no more important than other factors in the investment selection process..." is overly broad. As proposed, this could apply to nearly every fund, as consideration of even a singular ESG factor, particularly with respect to governance factors, is likely part of the investment process in the normal course of research and analysis. The lack of any threshold regarding the extent of the application of ESG

³ See Form N-1A, <https://www.sec.gov/files/formn-1a.pdf> (Form N-1A) at 9.

⁴ *Id* at 16.

⁵ *Id* at page 28.

⁶ Section 11 of the Securities Act of 1933, provides investors with the ability to hold issuers, among others, liable for damages caused by a registration statement that "contained an untrue statement of material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading." See 15 U.S.C. § 77k.



considerations could cause many funds that investors would not expect to be an ESG integration fund fall into this category.

Therefore, we recommend narrowing the definition to a fund that incorporates and holds itself out as incorporating one or more E or S factors, alongside G factors, into its investment process. Such a definition would exclude funds that consider solely governance factors as part of traditional investment research and would only include funds which affirmatively represent that they consider ESG factors. This would avoid an overly broad categorization and limit the scope to funds for which incorporation of ESG factors is a meaningful part of the investment process.

While we generally support disclosures regarding incorporation of ESG factors into the investment process for funds that meet the revised definition outlined above, we believe the requirement to summarize this in the summary prospectus⁷ is overly prescriptive and could have unintended consequences. As stated previously, we believe the current framework and concept of materiality provides adequate direction on whether disclosure regarding incorporation of ESG factors should be in a fund's summary prospectus, statutory prospectus or statement of additional information. The overly broad definition of an Integration Fund, combined with the proposed requirement for an Integration Fund to state in its summary prospectus how it incorporates ESG factors and what ESG factors it considers, could obscure other strategies or another focus of a fund. Currently funds are not required to specify every single financial factor that can be considered in its summary prospectus—only those which are material—and therefore requiring Integration Funds to list which ESG factors are considered could create a perception that ESG factors are in fact more important than other financial factors. As this is contrary to the proposed definition of Integration Funds, we recommend removing the requirement to include disclosure in an Integration Fund's summary prospectus, and instead allow funds to include disclosure in either the summary prospectus, statutory prospectus or statement of additional information as appropriate under current laws and regulations.

Additionally, we respectfully request that the Commission remove the proposed requirement to list the ESG factors an Integration Fund considers,⁸ as we believe it is not feasible to maintain an exhaustive list of every ESG factor. As the industry evolves, what factors are considered ESG factors could grow and shift. Portfolio managers may change which ESG factors are incorporated in response to market events, world events or as part of seeking to achieve their investment objective. A requirement to list the ESG factors considered could cause disclosure that could become stale quickly, triggering a barrage of summary prospectus supplements, which are both costly and could be confusing to shareholders. Instead, we recommend the Commission require an Integration Fund to include examples of the types of ESG factors that may be incorporated into the investment process. This would both provide investors with a better sense of the types of factors considered while allowing funds the flexibility needed to add or change such factors.

5. Proposed ESG-Focused Fund Disclosure

⁷ See the Release at 25.

⁸ *Id.*



A. Definition

We support the Commission’s approach of a designated category of ESG-Focused Funds, and the need for such funds to include disclosure about how the fund focuses on ESG factors in its investment process.⁹ However, the proposed definition includes undefined terms which could cause this category to be overinclusive. The Rule Proposal includes a fund that uses ESG factors as a “significant or main” consideration or whose advertising or sales literature indicates “that the fund’s investment decisions incorporate one or more ESG factors by using them as a significant or main consideration in selecting investments.”¹⁰ Given the various ways and degrees that a fund can use ESG factors, it is not clear what would qualify as a “significant” or “main” consideration. We believe that additional clarification or criteria would be beneficial. For example, is a strategy that applies a single exclusionary screen on a given industry, but does not otherwise incorporate ESG into the investment process, considered to be using ESG as a significant or main consideration? What if that single exclusionary screen only alters the investment universe in a de minimus manner given the overall strategy of a fund, and is therefore not material to the investment process? Or what if a fund uses a screen but such screen is not a hard exclusion, rather it serves as a flag for additional research and consideration? Without further criteria or guidance, there could be varying interpretations of what constitutes a “significant” or “main” consideration. This would lead to inconsistency within the industry, which would hinder investors’ ability to understand and compare funds’ ESG strategies.

The Rule Proposal defines an Impact Fund as an ESG-Focused Fund that seeks to achieve a specific ESG impact or impacts.¹¹ First, we ask the Commission to consider if a separate category is necessary, or whether impact investing could simply be one of the strategy options under ESG-Focused Funds, in the same way that the Commission has identified inclusionary and exclusionary forms of strategies for an ESG-Focused Fund. The Commission could add commentary regarding the disclosures required for an impact strategy, such as including a definition of the impact objective and how progress will be measured. In this way, all ESG focused strategies are treated equally from a disclosure standpoint rather than creating a hierarchy between ESG-Focused Funds and Impact Funds. We note that the use of a hierarchy in the European Union (EU) under SFDR has led to two main challenges. First, while there is industry consensus on what an impact fund should be, in seeking to codify this, the EU’s definition was overly broad, leading to a range of funds classifying themselves as Article 9 despite only using best-in-class or other strategies that are far removed from impact. Second, by bifurcating the ESG product landscape, the EU rules de facto created a product labelling system rather than simply a disclosure framework, even though the rules were not designed to be an explicit product standard. This has created confusion in the industry as to fund classification and has led to conversations about setting more explicit minimum standards for these types of products. If including impact investing as a type of strategy within ESG-Focused Funds raises concerns with the Commission regarding impact-washing, i.e. that

⁹ *Id* at 33.

¹⁰ *Id* at 33-34.

¹¹ *See* Release at 35.



funds could be labelled as impact funds without meeting the definition of impact investing, this could be addressed in the Commission’s proposed rule regarding Fund Names.¹²

Additionally, with respect to the definition of an impact strategy, we believe the definition should either be limited to funds that seek to achieve an impact through direct investing or use the GIIN definition of impact, i.e. that the investment must achieve a positive and measurable impact towards a specific sustainability goal alongside financial return.¹³ This is the type of strategy for which progress towards achieving such impact can be described. In the Release, the examples provided by the Commission relate to a fund seeking to achieve an impact through direct investing, such as a fund that invests with the goal of seeking to advance the availability of clean water by investing in industrial water treatment and conservation portfolio companies.¹⁴ In this example, the direct investment in industrial water treatment facilities could directly further the ESG impact sought by the fund, and investments in conservation companies in the secondary market could indirectly further this goal. If the Commission establishes a definition for impact strategies, this should not be so broad as to include funds which indirectly seek to further an ESG strategy at portfolio level by investing in companies that aim to create positive ESG impacts, as required by the Rule Proposal. While this type of fund can seek to further an ESG impact indirectly through its strategy of investing in the secondary market, it cannot directly seek to achieve such an impact. The Proposed Rule’s required Impact Fund disclosures would be far too specific for a fund which indirectly seeks an ESG impact through investments in the secondary market, as the proposed requirements for the Annual Report require Impact Funds to disclose how the fund measures progress towards the stated impact, the time horizon used to measure that progress, and the relationship between the impact the fund is seeking to achieve and the fund’s financial returns.¹⁵ As a fund that invests solely on the secondary market has limited control over how its portfolio companies move towards the stated impact, this type of disclosure is not appropriate for such funds. We believe that such funds would be better suited to the definition of ESG-Focused Funds. If the Commission instead utilizes the definition set forth by the GIIN, this is also most typically associated with direct investing. The GIIN is currently consulting on whether certain listed equity strategies could also meet this definition in certain circumstances. While we maintain at this time that the definition should solely apply to direct investing, as the industry evolves, we recognize that certain investments in certain circumstances could become suitable. Therefore, adopting the GIIN definition may allow for the strategy definition to evolve as the industry and data evolves.

B. Summary Prospectus Table

We also support the Commission’s goal of an ESG-Focused Fund’s inclusion of key information about its consideration of ESG factors in its prospectus. However, we do not believe that the tabular format proposed is the most appropriate method to provide investors with meaningful information.

¹² See Investment Company Names, Release No. IC-34593 (May 25, 2022).

¹³ See <https://thegiin.org/impact-investing/>

¹⁴ *Id.*

¹⁵ *Id.*



A “box ticking” table is not necessary, as Form N-1A Item 4 requires a fund to state its principal investment strategies in the summary prospectus and Item 9 requires a fund to describe such strategies in further detail in the statutory prospectus.¹⁶ The addition of a table moves away from enabling funds to tailor their description of their investment strategies and explain the use of ESG considerations, and instead creates an all-or-nothing approach that may lead to confusion or misunderstanding of a fund’s strategies. Additionally, if a fund has an ESG strategy alongside a non-ESG strategy, the table could confuse investors as to the importance of the strategies or the overall strategy of the fund. For example, funds may have a dual focus of excluding certain companies based on ESG factors and seeking growth companies. In this scenario, a table would present the information on the ESG strategy, but no such table would be required regarding the considerations used as part of the growth strategy. This places undue prominence on the ESG strategy over the growth strategy. An alternative approach could be additional instructions to Form N-1A specifically for ESG-Focused Funds. Such instructions could specially require ESG-Focused Funds to explain the ESG focus in the summary prospectus in a narrative manner, rather than a table. This would enable funds to explain the fund’s ESG focus or strategy alongside any other strategies of the fund.

With respect to the table itself, if the Commission moves forward with this aspect of the Rule Proposal, we believe funds should be able to add a longer narrative description of the elements of the fund’s strategy that the fund believes are material either before or within the rows of the table itself. This would allow funds to determine what information is helpful to investors’ understanding of the strategy, as opposed to only providing the specific information required in the table. This would allow investors to read about the fund’s principal strategies and how ESG is incorporated before or alongside the table, so as to avoid creating a perception of a fund’s strategies based on which boxes are checked. For example, if a fund does not check the box for using proxy or engagement, this could create a perception of a less than fully dedicated ESG focus, when in fact a fund could be as effective in implementing an ESG strategy through a divestment approach. Additionally, while the table would include a hyperlink to more robust disclosure later in the prospectus,¹⁷ this adds an additional step for investors to obtain information needed to explain why certain boxes are checked or left blank, and we therefore do not believe that such hyperlink would assist investors in a meaningful way.

Additionally, while we support a requirement for ESG-Focused Funds to describe any exclusionary or inclusionary approach, the proposed requirement to disclose the percentage of a fund’s assets to which an exclusionary or inclusionary screen applies¹⁸ may lead to stale disclosure in the prospectus, as this percentage could fluctuate due to market movement, a change in security classification or other reasons. As noted previously, requiring specific information in the

¹⁶ See Form N-1A at 9 and 16.

¹⁷ See the Release at 40.

¹⁸ See the Release at 44-45.



prospectus that can change relatively frequently could cause a sharp increase in prospectus supplements filed, increasing costs to shareholders and investor confusion.

Within the table, the proxy and engagement boxes are to be checked if an ESG-Focused fund uses those as a “significant means of implementing their ESG strategy.”¹⁹ However, the term “significant means” is not defined, nor is the term “engagement.” This is likely to lead to inconsistent treatment across the industry. One manager may consider voting proxies and engaging jointly with other funds through a manager-wide process to be considered a significant means while another may not. Additionally, many funds may participate in stewardship on governance matters in the normal course of investment process, and therefore could be included in this category, yet would not otherwise meet the definition. Lack of clear criteria may foster inconsistency across the industry and hinders investors’ ability to use the information provided by the table in a meaningful and evaluative way.

We respectfully do not support the proposed requirement for an ESG-Focused Fund to include in the table an overview of any third-party ESG frameworks that the fund follows as part of its investment process.²⁰ Third-party frameworks, such as the UN Principles for Responsible Investing or other frameworks, are entirely voluntary and have varying levels of commitment, responsibilities and requirements depending on the particular framework. A fund could follow, or cease to follow, a particular third-party framework based on a multitude of factors, some of which are not related to ESG (i.e. onerous reporting or data requirements). Therefore, whether a fund follows third-party ESG frameworks, which and/or how many, is not information that should guide an investor’s perception of a fund.

Therefore, while we support the notion of disclosure in the summary prospectus for ESG-Focused Funds, we recommend further defining the category and relying on narrative disclosure rather than a check-the-box approach to best provide investors with relevant information in a manner most useful to investor understanding.

C. Statutory Prospectus Disclosures

Invesco supports the Commissions’ goal of enhanced disclosure for ESG-Focused Funds in the statutory prospectus. However, we believe the proposed requirements are overly prescriptive in mandating certain detailed information.

First, the proposed rule would require funds to disclose any internal methodology used and how that methodology incorporates ESG factors.²¹ An ESG-Focused Fund would already be required to describe its principal strategies under Form N-1A Item 9.²² However, mandating disclosures on the details of an internal methodology could raise concerns about disclosing proprietary information. We support a requirement to explain the ESG strategy and provide an overview of

¹⁹ *Id* at 60.

²⁰ *Id* at page 48.

²¹ *Id* at 47.

²² *See* Form N-1A at 16.



any methodology, but request that the Commission clarify that a fund is not required to disclose proprietary information about the investment process.

Similarly, we support the Proposed Rule's requirement that a fund that tracks an index disclose the index provider and index it tracks. However, we believe the proposed requirement to describe any criteria or methodologies for selecting or excluding components of the index that are based on ESG factors²³ could cause duplicative and overly detailed disclosure in a fund's prospectus. We believe that this granular level of detail regarding the index methodology is better suited for the index provider's methodology documents.

Invesco supports requiring an ESG-Focused Fund to disclose if it relies on internal or external third-party data providers. However, the proposed requirement to disclose the scoring or ratings system of any third-party data provider, such as a scoring or ratings provider, used by the fund, including how the fund evaluates the quality of such data,²⁴ presents several concerns. Funds source many types of data from both ESG and non-ESG-related providers, and the proposed requirement could suggest to investors that the ESG-related providers play a larger role than others, since funds are not required to provide this information for other, non-ESG-related, providers. Listing specific providers could be seen as favoring certain third-party data providers over others. Additionally, providers may change over time, and funds should have flexibility to include data from an additional service provider or change a provider without needing to file a prospectus supplement. The requirement to explain how the fund evaluates the quality of data from a third-party ESG-related provider also raises concerns with disclosing proprietary information, as advisers and funds have discretion over their due diligence processes. Finally, the requirement to explain scoring or ratings systems could require funds to disclose their internal, proprietary information if such systems are internal, or cause a fund to be providing information about a third-party's system for which the fund does not control.

In addition to the check box in the summary prospectus table, the Proposed Rule requires ESG-Focused Funds to disclose specific information on the objectives a fund seeks to achieve with its engagement strategy, including time horizon for progressing on such objectives and any key performance indicators that the fund uses to analyze or measure the effectiveness of such engagement.²⁵ This requirement may lead to mischaracterization or misperception of a fund's ESG engagement, as it may be the case that an engagement is for the purpose of information gathering regarding a company's response to a recent event involving an ESG matter, which would not have an "objective" or a "time horizon" associated with such engagement. In this scenario, the engagement would nonetheless inform a fund's assessment of such company along ESG considerations and inform the company of the fund's view on such response. While this could certainly push the company to respond in a different manner in the future, or put in place additional processes and procedures that are favorable to the ESG matter, it would not be possible to report

²³ See Release at 49.

²⁴ See Release at 47.

²⁵ See Release at 64.



an objective or time horizon. Additionally, the objective sought and time horizon of an engagement could change over time.

6. Index Funds

Invesco supports the Proposed Rule's categories for Integration Funds, ESG-Focused Funds and Impact Funds. However, we believe that a separate category with different disclosure requirements for index funds is warranted. First, the Proposed Rule would require an index fund to disclose in its summary prospectus how the index provider utilizes ESG factors in determining its index constituents.²⁶ Under the current regulatory framework and Form N-1A, as part of its strategy, an index fund would identify the index it tracks, describe the main elements of the index and would provide information about how to find more information about the index. The Proposed Rule's requirement to provide additional information about the manner in which the index provider utilizes ESG factors specifically would oblige the index fund to provide a level of detail both not best suited for the fund's summary prospectus and more appropriate for the index provider to disclose in its index methodology disclosures. Second, the Proposed Rule would require disclosure in the statutory prospectus regarding the index methodology for any index the fund tracks, including any criteria or methodologies for selecting or excluding components of the index that are based on ESG factors.²⁷ Again, this would cause an index fund to include in its own regulatory filings specific and detailed information about a third party's methodologies, when such information is best disclosed in documents owned and controlled by such third party. This would also place an administrative burden on the fund and cost to shareholders to supplement the prospectus any time the index provider alters a particular criteria. A separate category for index funds would enable the Commission to address the nature of index funds more specifically in the disclosure requirements.

7. Funds of Funds

Similarly to index funds, we believe that a separate category for fund of funds is appropriate, as there are complexities with the definition of Integration Fund, ESG-Focused Fund and Impact Fund that would make the top-level fund's categorization difficult, inconsistent in the industry and confusing to investors. If a fund invests in a multitude of underlying funds, it is unclear how many of those underlying funds must be Integration Funds or ESG-Focused Funds to warrant the top-level fund also being considered an Integration Fund or ESG-Focused Fund. There could be various combinations of underlying funds, some of which are Integrated Funds, some of which have no integration, and some of which are ESG-Focused Funds, and each manager will develop its own method to evaluate the category of the top-level fund. Therefore, a separate category would enable a definition that applies specifically to fund of funds. Additionally, if a determination is made that the top-level fund is an ESG-Focused Fund, the same difficulty applies to the information required by the summary prospectus table. How many underlying funds must have checked the box indicating that proxy voting and/or engagement are significant means of

²⁶ Id at 47.

²⁷ Id at 48.



implementing its ESG strategy to warrant the top-level fund checking this box? Or would the top-level fund list this out separately for each underlying fund, causing a very lengthy table that could be difficult to read in full? Aggregating and/or presenting the information required by the table and disclosures for each underlying fund could create a prospectus that is more difficult for investors to understand. Defining a new category with different disclosure requirements would enable the Commission to apply an approach tailored to the fund of funds structure.

8. Unit Investment Trusts

Invesco supports the initiative for UITs to provide investors with clear information about how portfolios are selected based on ESG factors.²⁸ We agree with the Commission's proposition that there is no need to distinguish between an integration model or an ESG-focused model for a UIT, as the portfolio is fixed once selected. We believe that an ESG disclosure requirement can apply to UITs, however, we recommend that such requirement should be applicable solely at the time of inception when the portfolio is selected, and should not include an ongoing requirement that would necessitate amendments or supplements over time. This would be an appropriate framework for UITs given that investors are made aware of each investment included for the duration of the UIT and can review the characteristics of such investments at their discretion.

9. Annual Report Disclosure

A. Proxy Voting and Engagement

Invesco supports the Commission's goal of providing investors with information regarding a fund's proxy voting and engagement practices. Invesco's Global Proxy Policy is filed and publicly available. Additionally, Invesco currently publishes an Investment Stewardship Report annually, which describes proxy voting and engagement efforts, including specific case studies and examples. These documents provide useful information to investors regarding proxy voting and engagement. The proposed amendments would require a fund which checks the box in the summary prospectus table regarding proxy voting to disclose, in the MDFP or MD&A section of the annual report as applicable, the percentage of ESG-related voting matters during the reporting period for which the fund voted in furtherance of the initiative.²⁹ Invesco believes that a metric such as percentage of ESG-related voting matters for which the fund voted in furtherance to be overly prescriptive and potentially providing inaccurate information to investors regarding a fund's ESG-related proxy efforts. First, what is considered an ESG-related matter may differ by manager, leading to inconsistent reporting on this metric. Second, an objective metric such as percentage overlooks the subjective nature of proxy voting—specifically, why a fund chose to vote for or against a certain ESG-related proposal. A fund could potentially vote against an ESG matter because the proposal itself is poorly defined, rather than the nature and goal of the ESG-matter itself. This metric could also provide inaccurate information for a fund that has recently repositioned its portfolio during the reporting period. If a fund was not previously an ESG-Focused Fund, but changes its strategy and becomes such a fund during the reporting period, its percentage

²⁸ *Id* at page 68.

²⁹ *See* Release at 77-78.



of proxy voting on ESG-related matters for which the fund voted in furtherance of the ESG initiative would include a time period before such strategy change. In this scenario, the fund's percentage could be artificially low, as it was not as likely to vote in furthering of ESG-related matters during the time period before it transitioned to an ESG-Focused Fund. For these reasons, we would recommend eliminating this requirement of the Proposed Rule.

Regarding engagement, the Proposed Rule requires disclosure of the number or percentage of issuers with whom the fund held ESG engagement meetings during the reporting period related to one or more ESG issues and total number of ESG engagement meetings.³⁰ Similarly to proxy voting, we believe requiring a specific metric, here number of issuers and ESG engagement meetings, overlooks the subjective nature of engagements and may cause potentially inaccurate information. While the Commission states that funds can explain other engagements, investors are likely to form a view based on the percentage or number reported. We believe that focusing on a number or percentage values the quantity of ESG engagements over the quality. A two hour conversation with company management may result in a better outcome than 10 shorter conversations with various contacts within such company. Reporting a number or percentage provides a dis-incentive to engage in more thorough, lengthier and more robust engagements, as such an engagement would require more time and resources than a larger number of shorter and less thorough engagements. This requirement also places a higher burden on funds with a large number of holdings versus a smaller number of holdings, as to engage with a high percentage of companies would require a larger amount of time and resources for a fund with 200 holdings than a fund with 30 holdings. Additionally, while we commend the Commission in proposing criteria to define an engagement, we believe the definition is overly narrow. The proposed definition of an "ESG engagement meeting" is 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." This definition focuses on a measurable goal for which progress can be achieved, which would exclude many engagements which are in response to current ESG issues or events for the purpose of gathering information and understanding a company's response to such issue or event. These types of engagements are a valuable tool for assessment and can prompt a company to respond to an ESG issue or event in a more timely or beneficial manner. For these reasons, we would respectfully recommend eliminating this requirement.

B. GHG Metrics

The Rule Proposal would require that funds in all three categories disclose whether and how they consider GHG emissions in their investment processes. Invesco supports the Commission's goal of providing investors with comparable information on GHG emissions where relevant. An Integration Fund that considers GHG emissions would be required to "describe how the fund considers the GHG emissions of its portfolio holdings" including a "description of the methodology that the fund uses as part of its consideration of portfolio company GHG

³⁰ *Id* at 80.



emissions.”³¹ We believe that requiring this disclosure for Integration Funds may place undue prominence on GHG, when this is one factor of many ESG and non-ESG factors considered. In addition, we respectfully request clarification on the proposed requirement to disclose “the sources of GHG emissions data the fund relied on as part of its investment selection process.” Would this requirement apply solely to funds that explicitly consider GHG emissions as part of their investment strategy or process, or also to funds which use a score for which GHG emissions are one input into such score?

Invesco supports the proposed calculation methodology, as we believe that specifying a methodology to facilitate comparability is helpful, and we support the consistency in the carbon footprint and weighted average carbon intensity (WACI) metrics being generally consistent with the metrics recommended by the GHG Protocol’s Corporate Accounting and Reporting Standard (PCAF Standard) and the TCFD.³² However, we would respectfully request that the Commission revise the Proposed Rule to provide enhanced international interoperability, namely, that funds which already report GHG emissions in line with another jurisdiction could maintain the use of that methodology. Otherwise, a fund that is distributed in multiple jurisdictions could be required to report a different set of data with different results in one jurisdiction versus another, leading to investor confusion.

As stated above, we recommend that funds of funds be a separate category subject to different disclosure requirements. In connection with that category, we request that Commission consider the GHG calculation methodology for fund of funds distinctly. In the scenario where only certain underlying funds consider GHG emissions while others do not, it would be quite difficult and costly to look through to the portfolios of the underlying funds for this calculation and provide GHG reporting at the top fund level. This could create investor confusion as to the top level fund’s reported GHG metrics.

Finally, we request that the Commission consider sequencing these requirements to ensure that the corporate climate disclosures are already in effect as of the compliance date of this requirement. This would limit the reliance on estimates and provide more accurate information to investors.

10. Form N-CEN

The Proposed Rule adds new proposed questions on Form N-CEN regarding ESG funds’ strategies and processes. A fund that indicates it incorporates ESG factors would then be required to report, among other things: (i) the type of ESG strategy it employs (i.e., integration, focused, or impact); (ii) the ESG factor(s) it considers (i.e., E, S, and/or G); and (iii) the method it uses to implement its ESG strategy (i.e., tracking an index, applying an inclusionary and/or exclusionary screen, proxy voting, engaging with issuers, and/or other).³³ We support identifying the type of ESG

³¹ *Id* at 28.

³² *Id* at 88.

³³ *Id* at 150.



strategy a fund employs, and if it considers E, S, or G factors. We request clarification as to whether a fund would be required to state if it considers E, S or G as part of its strategy, or to specifically list all of the factors within each of those. The proposed amendments to Form N-CEN would also require a fund that considers ESG-related information or scores by ESG providers to provide the legal name and legal entity identifier (“LEI”) of such provider.³⁴ As stated above, identifying the name of ESG providers could place undue prominence of ESG data over other data. Also, funds can and should maintain the discretion to select and change data providers for many reasons, without creating a regulatory filing that is no longer accurate. Finally, as pertains to index funds, the proposed amendment would require all index funds to report the name and LEI if any, or provide and describe other identifying information of the index the fund tracks.³⁵ We respectfully request that the Commission clarify to what the LEI refers in this context, as an index typically retains a ticker symbol, but not an LEI number.

11. Inline XBRL Data Tagging

The Proposed Rule requires that all funds submit all proposed ESG-related registration statement and annual report disclosure in Inline XBRL.³⁶ While we support the idea of disclosures being available and easily accessible for aggregation, comparison, filtering and other analysis, we believe that the cost to shareholders outweighs the utility of the Inline XBRL. It would be costly to implement, as currently the prospectus is in Inline XBRL, but the annual report is not in this format currently. Also, UITs are not currently required to implement Inline XBRL, therefore this requirement would introduce a new cost on UITs. We do not believe these costs to shareholders are outweighed by the potential benefit to the shareholders, as most shareholders are not familiar with Inline XBRL and, we believe, are not likely to use it to extract or search for disclosures or compare against prior periods and/or other funds. There may be certain investors and market participants who currently utilize XBRL to review and compare disclosures; however, we believe the amount of such investors who would benefit from the enhanced requirement would be minimal in comparison to the cost.

12. Adviser Brochure (Form ADV Part 2A)

Under the Proposed Rule, investment advisers would be required to provide an explanation of whether and how the adviser incorporates a particular ESG factor and /or a combination of factors and to include an explanation of whether and how the adviser employs integration and/or ESG-focused strategies, and if ESG-focused, whether and how the adviser also employs ESG impact strategies. Invesco agrees that advisers should disclose material risks of any strategies,

³⁴ *Id.*

³⁵ *Id* at 151.

³⁶ *Id* at 122.



including as it relates to ESG, as currently required by Item 8 of the ADV brochure.³⁷ However, the requirement to add specific disclosures regarding ESG integration and/or ESG strategies without any delineation between these categories could lead to a large volume of ESG disclosures, particularly for advisers that manage many different types of funds along the ESG spectrum. This level of detail and the prominence of the ESG integration and ESG-focused strategy disclosure could lead investors to believe that ESG is more significant than other strategies which is counter to the Commission’s definition of Integration funds, and not always accurate for ESG-Focused Funds that may employ multiple strategies. Additionally, as funds may change or modify strategies or methods of ESG integration, the disclosure may become stale or inaccurate. We would support an alternative approach to require this disclosure solely for any adviser-wide methodologies, such as a centralized research platform, ratings system or data analysis. In this case, an adviser is providing ESG services that can be leveraged by multiple funds. However, where methodologies vary widely by fund, the adviser should not be required to provide the ESG disclosures for every fund. Instead, per the current form, the adviser would provide disclosures solely for those that have material risks associated with the ESG strategies.

13. Form ADV Part 1A

A. SMAs

The Proposed Rule also amends Form ADV Part 1A to expand the information required about advisory services provided for separately managed accounts (SMAs) and private funds to include the use of ESG factors.³⁸ We do not support this requirement with respect to SMAs. Managers do not choose the strategies and investment processes for client SMAs; instead, the client chooses the elements and focus of their strategy. Therefore, to provide this level of detail regarding SMAs could be providing client identifying information, as it would require identifying the SMA (which could include client identifying information) and which ESG factors are considered for such strategy. As an example, if a particular client requested an SMA that excluded companies that produce weapons, disclosing this in the ADV would publicize such client’s personal belief system, which is client personal and confidential information.

B. Third-Party ESG Frameworks

The same concern applies to the proposed requirement to report whether the adviser follows any third-party ESG framework in connection with their advisory services to SMAs,³⁹ as identifying the third-party ESG framework could also expose a private belief.

C. Related ESG Providers

³⁷ *Id* at 129.

³⁸ *Id* at 156.

³⁹ *Id* at 158.



With respect to the proposed requirement to disclose whether the adviser has related persons that are ESG providers, we respectfully request that the Commission provide a clearer definition of ESG provider. There are many providers of data that could utilize ESG factors as one component of an analysis or rating, but that does not separately provide data or rank companies solely based on ESG factors. Additional information regarding what type of data would cause a provider to be considered an ESG provider would be important to aid in the determination and provide consistency across the industry.

14. Compliance Policies and Procedures and Marketing

Invesco supports the Commission's guidance that advisers' and funds' compliance policies and procedures should address the accuracy of ESG disclosures made to clients, investors and regulators, and address the portfolio management process.⁴⁰ However, we respectfully request additional guidance regarding the nature and type of such policies and procedures. Specifically, is the Commission recommending formal, codified policies, or less formal desk procedures? With the rapidly evolving nature of ESG investing, individual fund desk procedures may be best created as this that can adapt more nimbly than a formal policy.

With respect to compliance dates, we respectfully request that the Commission consider extending the time period, as we believe that one year following the effective date⁴¹ would provide insufficient time. The industry would need time to communicate the changes required to many different divisions across multiple jurisdictions. Disclosure requirements which impact the prospectus would entail working with portfolio managers, compliance and other teams to draft, most likely be presented to fund boards, and changes incorporated into fund annual updates, which happen on a rolling basis based on multiple fiscal year ends. This process warrants more than a year of implementation. This is particularly the case if the Proposed Rule is adopted at or about the same time as the Commission's proposal regarding Investment Company Names.⁴² Also, data infrastructure and new technology may be required for certain of the Proposed Rule's requirements, some of which may not yet be designed or developed. For these reasons, we respectfully believe that no less than a two-year time period would be a more appropriate compliance period.

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⁴⁰ *Id* at 168.

⁴¹ *Id* at 168.

⁴² See Investment Company Names, Release No. IC-34593 (May 25, 2022).



Invesco appreciates the opportunity to comment on this important matter and the Commission's consideration of our comments. We are available to discuss our comments or provide any additional information or assistance that the Commission might find useful.

Sincerely,

Invesco Ltd.

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