INTERFAITH CENTER ON CORPORATE RESPONSIBILITY
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August 16, 2022

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

Submitted by email to rule-comments@sec.gov

RE: "Environmental, Social and Governance Disclosures for Investment Advisers and Investment Companies" (File No. S7-17-22)

Dear Secretary Countryman:

The Interfaith Center on Corporate Responsibility ("ICCR") is pleased to have an opportunity to comment on the rule changes proposed by the Securities and Exchange Commission (the "SEC" or "Commission"), "Environmental, Social and Governance Disclosures for Investment Advisers and Investment Companies" (the "Proposed Rules"; the Notice of Proposed Rulemaking setting forth the Proposed Rules is referred to as the "Release"), that aim to promote transparency regarding mutual funds' and investment advisers' use of ESG factors in making decisions about investment and stewardship.

ICCR is a broad coalition of institutional investors collectively representing over $4 trillion in invested capital. ICCR members are a cross section of faith-based investors, asset managers, pension funds, foundations, and other long-term institutional investors. Many of our members are, or invest via, funds or investment advisers that seek to achieve particular environmental, social and governance ("ESG") impacts and/or consider ESG factors in making investment and stewardship decisions. Shareholder engagement is the core focus of the ICCR coalition, and most ICCR members engage with portfolio companies on a range of critical ESG issues.

This comment focuses on the ESG strategy of company engagement as it is addressed in the Proposed Rules and Release. The Proposed Rules would require funds to classify themselves as ESG Integration Funds, which consider one or more ESG factors as well as other, non-ESG factors in investment decisions, with the ESG factors not being dispositive; or ESG-Focused Funds, defined as funds that focus on one or more ESG factors by "using them as a significant or main consideration (1) in selecting investments or (2) in [their] engagement strategy" with portfolio companies.

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The Proposed Rules would require ESG-Focused Funds that rely on ESG factors as a significant or main factor in their engagement process to check a box on the ESG Strategy Overview table that would appear in the beginning of the prospectus and provide a brief narrative disclosure in the table regarding such engagement. That description would disclose the "objectives it seeks to achieve with its engagement strategy," according to the Release. The fund would be required to elaborate on that disclosure later on in the prospectus and to disclose in its annual report the number or percentage of issuers with which it held ESG engagement meetings.

We believe that using the number of engagement meetings as the sole metric for ESG-Focused Funds that use ESG engagement as a significant strategy would deprive investors of information they need to fully understand and compare funds' engagement approaches. ICCR members, including funds and advisers, engage in a wide variety of engagement activities, in addition to meetings. (Question 58 in the Release sought comment on these activities.)

ICCR members often send letters to one or a group of companies urging action on ESG matters; as one example, in 2020, ICCR members sent a letter urging apparel and footwear companies to disclose actions they had taken to protect workers in their supply chains from economic disruptions caused by the COVID-19 pandemic.[1]

ICCR members have also employed the shareholder proposal process to communicate with companies and suggest specific ESG reforms, including enhanced disclosure and policy changes. In the 2022 proxy season, ICCR members sponsored 506 shareholder resolutions on ESG topics including climate change, racial justice, access to healthcare, worker rights, and lobbying and political contributions.[2] Many proposals are withdrawn because settlements are reached – during the 2022 proxy season, 175 shareholder proposals filed by ICCR members were withdrawn based on specific commitments made by companies. Other kinds of shareholder initiatives, such as vote no campaigns on directors, are much less frequent but can also be used to advocate for ESG reforms.

Work with stakeholders is another key aspect of corporate engagement. Stakeholders help inform many ICCR member engagements, and developing and maintaining these relationships is important for some members' engagement strategies. Stakeholders may be people, groups, or communities affected by corporate behavior; non-governmental organizations; or civil society groups.

Although it is not direct company engagement, engagement with standard-setters, regulators and legislators on ESG issues can advance ESG priorities and shape corporate behavior. Advocating for mandatory climate change disclosure, for instance, can complement company-specific efforts, as can influencing voluntary reporting frameworks.

A mix of quantitative metrics and narrative disclosure on these kinds of activities and the results they generate would give investors a much fuller picture of funds' engagement strategies than that depicted through the minimal disclosures in the Proposed Rules. Fuller disclosure is necessary to avoid misleading investors, who might conclude that the fund holding the largest number of meetings has the most robust engagement program, even if those meetings do not prompt any ESG changes. Requiring disclosure of the range of engagement activities would also minimize the

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[1] https://www.iccr.org/sites/default/files/resources_attachments/2020_letter_to_af_companies_-covid-19_4-30-20.pdf

[2] https://www.iccr.org/sites/default/files/iccrs_2022_proxy_resolutions_and_voting_guide_v2.pdf

incentive created by the Proposed Rules to shift engagement resources toward meetings even if they are less effective.

We urge the Commission to require in the final rule that funds disclose their overall approach to engagement, including their strategies, goals, methods of measuring progress, and collaboration with stakeholders; the number of informal approaches (such as letters), engagement meetings, shareholder proposals, and other initiatives undertaken each year; and the results achieved using engagement strategies. If a fund's engagement strategies support or are otherwise linked to any of its other ESG strategies, such as screening, the nature of that connection should also be described in the prospectus.[3]

Thank you again for the opportunity to comment. For more information please contact me on at jzinner@iccr.org.

Sincerely,

Josh Zinner
Chief Executive Officer

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[3] These recommendations respond to Question 81 in the Release, which asks: "Instead of, or in addition to, ESG engagement meetings, are there other metrics that we could require to be disclosed in relation to a fund's engagement strategy?"