FACT SHEET

ESG Disclosures for Investment Advisers and Investment Companies

The Securities and Exchange Commission proposed amendments to rules and disclosure forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of environmental, social, and governance ("ESG") factors.

The proposed changes would apply to registered investment companies, business development companies (together with registered investment companies, "funds"), registered investment advisers, and certain unregistered advisers (together with registered investment advisers, "advisers"). The rules and form amendments would enhance disclosure by:

- Requiring additional specific disclosure requirements regarding ESG strategies in fund prospectuses, annual reports, and adviser brochures;
- Implementing a layered, tabular disclosure approach for ESG funds to allow investors to compare ESG funds at a glance; and
- Generally requiring certain environmentally focused funds to disclose the greenhouse gas (GHG) emissions associated with their portfolio investments.

Background

While ESG strategies have existed for decades, investor interest in these strategies has rapidly increased in recent years, with significant inflows of capital to ESG-related investment products and advisory services. Asset managers have responded to increased demand by creating and marketing ESG products.

The ways that different funds and advisers define ESG can vary widely. Similarly, there are significant differences in the data, criteria, and strategies used as part of ESG strategies. The lack of disclosure requirements and a common disclosure framework tailored to ESG investing make it harder for investors who seek to understand which investments or investment policies are associated with a particular ESG strategy. In the absence of informative disclosures, a fund's or adviser's disclosure could exaggerate its actual consideration of ESG factors.

The proposed rule and form amendments are designed to provide consistent standards for ESG disclosures, allowing investors to make more informed decisions as they compare various ESG investments. The proposal's framework for ESG-related strategy disclosure is designed to allow investors to determine whether a fund's or adviser's ESG marketing statements translate into concrete and specific measures taken to address ESG goals and portfolio allocation. The proposal also requires certain environmentally focused funds to disclose information regarding the GHG emissions associated with their portfolio.

Proposed Amendments

ESG Strategy Disclosure for Funds and Advisers

The proposal would require funds that consider ESG factors in their investment process to disclose additional information regarding their strategy. The amount of required disclosure depends on how central ESG factors are to a fund's strategy and follows a "layered" framework, with a concise overview in the prospectus supplemented by more detailed information in other sections of the prospectus or in other disclosure documents, all of which would be reported in a structured data language. The proposal identifies the following three types of ESG funds:

- *Integration Funds.* Funds that integrate ESG factors alongside non-ESG factors in investment decisions would be required to describe how ESG factors are incorporated into their investment process.
- *ESG-Focused Funds*. Funds for which ESG factors are a significant or main consideration would be required to provide detailed disclosure, including a standardized ESG strategy overview table.
- *Impact Funds.* A subset of ESG-Focused Funds that seek to achieve a particular ESG impact would be required to disclose how it measures progress on its objective.

Advisers that consider ESG factors would be required to make generally similar disclosures in their brochures with respect to their consideration of ESG factors in the significant investment strategies or methods of analysis they pursue and report certain ESG information in their annual filings with the Commission.

Additional Disclosure Regarding Impacts and Proxy Voting or Engagements

Certain ESG-Focused Funds would be required to provide additional information about their strategies, including information about the impacts they seek to achieve and key metrics to assess their progress. The proposal would require funds that use proxy voting or engagement with issuers as a significant means of implementing their ESG strategy to provide additional information about their proxy voting or ESG engagements, as applicable.

GHG Emissions Reporting

The proposal generally would require ESG-Focused Funds that consider environmental factors in their investment strategies to disclose additional information regarding the GHG emissions associated with their investments. These funds would be required to disclose the carbon footprint and the weighted average carbon intensity of their portfolio. The requirements are designed to meet demand from investors seeking environmentally focused fund investments for consistent and comparable quantitative information regarding the GHG emissions associated with their portfolios and to allow investors to make decisions in line with their own ESG goals and expectations. Funds that disclose that they do not consider GHG emissions as part of their ESG strategy would not be required to report this information. Integration funds that consider GHG emissions would be required to disclose additional information about how the fund considers GHG emissions, including the methodology and data sources the fund may use as part of its consideration of GHG emissions.

Additional Information:

Visit sec.gov to find more information about the proposed rulemaking and the full text of the proposing release. The public comment period will remain open for 60 days after publication in the Federal Register.