

May 5, 2020

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

Submitted via email: rule-comments@sec.gov

**Re: Request for Comments on Fund Names (File No. S7-04-20)**

Dear Ms. Countryman:

State Street Global Advisors, the investment management arm of State Street Corporation,<sup>1</sup> welcomes the opportunity to respond to the Securities and Exchange Commission's ("Commission's") request for comments on amendments to Rule 35d-1 (the "Names Rule") of the Investment Company Act of 1940 ("'40 Act").<sup>2</sup> Specifically, the Commission seeks comments on the regulatory framework for names of registered investment companies and business development companies that may mislead investors regarding fund investments and risks.

With \$2.689 trillion assets under management,<sup>3</sup> State Street Global Advisors is the world's third-largest asset manager and the issuer of the SPDR family of exchange-traded funds. We appreciate the Commission's initiatives to modernize the existing regulatory approaches, including registered fund names. We wholly support full and accurate disclosure by investment funds, and in combination with the general antifraud provisions of Federal securities laws and Section 35(d) of the '40 Act, the

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<sup>1</sup> Headquartered in Boston, Massachusetts, State Street Corporation is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With \$31.864 trillion in assets under custody and administration and \$2.689 trillion in assets under management, State Street operates in more than 100 geographic markets globally as of March 31, 2020. State Street is organized as a United States bank holding company, with operations conducted through several entities, primarily its wholly-owned state-chartered insured depository institution, State Street Bank and Trust Company.

<sup>2</sup> Available at [https://www.govinfo.gov/content/pkg/FR-2020-03-06/pdf/2020-04573.pdf?utm\\_campaign=subscription+mailing+list&utm\\_source=federalregister.gov&utm\\_medium=email](https://www.govinfo.gov/content/pkg/FR-2020-03-06/pdf/2020-04573.pdf?utm_campaign=subscription+mailing+list&utm_source=federalregister.gov&utm_medium=email).

<sup>3</sup> As of March 31, 2020.

Commission's Names Rule has been a valuable tool for establishing a consistent framework for the naming of funds with respect to a fund's type of investments, industry or geographic region. The investment management industry has changed considerably since the Names Rule was adopted in 2001, and we agree that a fresh look at the rule is appropriate and timely.

While we believe a full review of the Names Rule is appropriate and we look forward to providing comments on any changes proposed by the Commission, our comments today focus more narrowly on two specific matters: first, we suggest the Commission provide clarification that the use of terms such as "environmental", "sustainable", or "ESG" in a fund name reflects an investment strategy, and is therefore not within the scope of the Names Rule; and second, we recommend that the Commission adopt a more flexible approach to the industry classification of portfolio companies for purposes of the Names Rule.

### **Application of the Names Rule to "ESG" and Similar Fund Names**

Under the Commission's current Names Rule, a fund must invest at least 80% of its assets in the investment type, industry, country, or region suggested by its name. This 80% does not, however, apply to fund names indicating investment strategies, objectives, or policies. We believe this approach is sensible and well understood by investors, and, while some clarifications to the Names Rule may be desirable, we suggest the Commission retain this core approach going forward.

The Commission, in its request for comments, raised questions as to how the Names Rule should apply to funds using terms like "ESG" in their name. The Commission indicated that there are differing interpretations in the fund industry on whether such names refer to investment types (to which the Names Rule would not apply) or investment strategies (which the Names Rule covers).

We believe that "ESG" and similar terms that reflect investment strategies, not investment types, should remain out of scope for the Names Rule. In our view, the use of a term such as ESG in a fund name is similar to the use of the term "growth" in a fund name: it connotes the purpose of the fund, not the "type" of investment. We therefore urge the Commission to clarify that terms such as "environmental", "sustainable" or "ESG" reflect investment strategies, not investment types.

While we do not believe the Names Rules should be applied to investment strategies such as ESG, we do support full and transparent disclosure. As with all investment strategies, including ESG, we believe that there should be clear and concise registration statement disclosure of principal investment strategies and associated risks. Additionally, these disclosures should be principles-based and provide investors with information that is relevant to the fund. As the ESG market innovates,

ESG disclosures will need to continue to evolve in order to provide investors with the most relevant and accurate strategy and risk information, and we would welcome the opportunity to engage with the Commission in a more detailed discussion regarding ESG disclosures.

### **Industry Classifications**

Under the current Names Rule, funds suggesting investment in industry segments must invest at least 80% of fund assets in the industry indicated in the fund name. We agree with this Names Rule requirement and believe it benefits investors.

We suggest that the Commission introduce greater flexibility with respect to an investment advisers' classification of securities by industry for purposes of meeting the 80% test. In our experience, the Commission, in interpreting the Names Rule, is inclined to rely on the Standard Industrial Classification ("SIC") system for classifying securities held by a fund. While the SIC has benefits, particularly with respect to its broad use across many purposes and high level of acceptance, we believe it can be overly rigid for purposes of describing a fund's investments, particularly with respect to emerging technologies. For example, an investor seeking to gain exposure to an emerging transportation development industry would likely expect exposure to new technology, such as self-driving vehicles, but the leaders in this new field may not, for SIC purposes, be classified as part of the transportation sector. As a result, for purposes of the Names Rule, such investments would not count toward the 80% test.

There are, however, a variety of industry classification systems available to fund advisers, some of which we believe capture the classification elements important to investors more effectively than the SIC. In our view, the use of more nuanced classification systems would benefit investors and is consistent with the goals of the Names Rule (and Section 35(d)), provided the sources and methodologies used are fully disclosed by the fund.

As such, we urge the Commission to clarify that funds have, for purposes of meeting the 80% Names Rule requirement, the ability to leverage different industry classification systems, provided the methodology used is appropriately disclosed.

### **Conclusion**

In conclusion, State Street Global Advisors would once again like to thank the Commission for the opportunity to provide comments on the Names Rule.

Please feel free to contact me at [Katherine\\_McKinley@ssga.com](mailto:Katherine_McKinley@ssga.com) should you wish to discuss our submission in further detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Katherine S. McKinley". The signature is written in a cursive, flowing style.

Katherine S. McKinley  
Senior Vice President and General Counsel  
State Street Global Advisors