Overview

MFS Investment Management ("MFS") is a Boston-based investment manager with over $400 billion in assets under management. Our investment process relies on a long-term orientation, deep fundamental research, and institutional risk controls to generate repeatable outperformance for our clients.

As a result of this investment process, MFS seeks to understand all factors that could impact our clients' investment returns. We believe that material environmental, social, and corporate governance ("ESG") factors may impact investment returns, so we integrate our analysis of material ESG issues into our security selection process.

The regulation S-K concept paper requested comments on ESG disclosures and tax disclosures. MFS has provided comments on these two areas below.

ESG Disclosures

Many public companies have chosen to publish corporate social responsibility ("CSR") reports outside of their required SEC filings. Although these reports are useful for many of the firm's internal and external stakeholders, our experience suggests that CSR reports are generally not intended for institutional investors, as many of the topics discussed fall short of what we deem to be material from an investment perspective. In addition, many CSR reports lack investor-focused quantification of material ESG issues. Finally, it is our understanding that these CSR reports generally do not receive the same legal and audit scrutiny as SEC filings, which makes us less comfortable making investment decisions based upon the material contained within them.

In spite of these shortcomings, we applaud companies that have generated CSR reports, as disclosure on ESG topics is very poor currently. The poor state of ESG reporting has hampered MFS's ability to evaluate critical aspects of the investment case for many different firms.

We encourage the SEC to specifically require investor-actionable disclosures on material ESG factors in 10-K filings, registration statements, and other filings the Commission deems appropriate. Although the Commission has many options regarding the display of this disclosure, one option is to require a footnote to the financial statements on "Sustainability". This footnote (or whatever other option is chosen) should contain a concise, analytical assessment of only the ESG topics that are material to the issuer's business, with supporting data points to assist investors in the evaluation of those topics. When possible, the Commission should encourage comparability of quantified sustainability data points within industries. Regardless of the disclosure option selected, we encourage the commission to disallow "boilerplate" disclosure that lacks appropriate quantification of the risks identified.

We are mindful of the additional burden these disclosures might place on issuers. However, the following factors suggest this additional disclosure will entail very minimal costs or perhaps even generate savings vs. existing processes for some companies:

- In the absence of clear investor requirements regarding sustainability, several company representatives have told us that they feel compelled to respond to all sustainability-oriented requests, which results in resources being utilized on potentially immaterial topics instead of focused on the most material issues facing the firm. The goal of our suggestion above is to encourage fewer but more actionable disclosures, while also providing companies with clear regulatory objectives that allow them to more easily turn away excessive or immaterial requests.

- The current lack of disclosure on ESG issues leads many investors to "engage" with companies on these issues. This engagement can be both costly and inefficient and often results in insufficient information being provided to permit a quantification of the risk. Improved and quantified disclosures will streamline investor engagement, making the process more efficient for companies.
- We understand that other stakeholders or investor groups may desire disclosures based on certain pre-defined standards, some of which may not be material for individual companies. We believe our suggestion that companies be required to disclose information concerning only those ESG topics that are material to the company will entail lower cost than more expansive disclosure requirements. This more tailored approach would provide company management with more flexibility to define the sustainability topics that are material to their business.

Tax Disclosures

As part of our integration of material ESG topics, MFS' investment team has researched the potential risks associated with certain tax strategies used by some multinational enterprises. Many individual governments and collective bodies like the Organization for Economic Co-operation and Development ("OECD") are changing and/or more assertively enforcing tax regulations. We believe this fact creates earnings risk for companies that have chosen to take more controversial tax positions; however, current disclosure on tax related issues is generally not sufficient for an investor to properly assess this material risk.

We believe that investors would benefit from the following tax disclosure enhancements:

1) An explanation of the foreign tax rate differential found in the statutory tax rate reconciliation within the tax footnote. This differential is often very large; however, it is a collection of earnings and tax rates in many countries that is generally not explained by issuers.

2) A change to the statutory tax rate reconciliation schedule to begin with the company's weighted average statutory rate based on its geographic revenue mix. This change will reduce the foreign tax rate differential explanation requested above and will help investors better forecast the effective tax rate if more anti-avoidance regulations are implemented.

3) An overview of the tax strategies or factors leading to changes in the Unrecognized Tax Benefit balance.

4) Increased disclosure regarding intercompany debt, including the countries where the debt is held, the amount of intercompany debt, the interest rate "paid" by the relevant subsidiary, and the maturity date of the debt. "Earnings stripping" using intercompany debt may be regulated by proposed laws in both the US and Europe; however, investors have little to no information regarding intercompany debt.

5) Improved transparency related to special tax incentives offered by certain jurisdictions, including the expiration date of material incentives, investments required to maintain the incentive(s), and commentary regarding the likelihood that such incentives will not be renewed (along with the likely strategy employed if the incentives are not renewed).

Conclusion

Environmental regulations, changing social norms and investor expectations on corporate governance are both rapidly evolving and impacting security prices. Improved disclosure on material ESG topics is essential to ensuring investors have the qualitative and quantitative information necessary to make informed decisions. MFS thanks the Commission for the opportunity to comment on these topics.

Sincerely,

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Research Analyst

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