August 16, 2022

Via email
rule-comments@sec.gov

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

Re: Comments on Proposed Rule - Investment Company Names - File Number S7-16-22

Dear Ms. Countryman:

LTSE Services, Inc. appreciates this opportunity to provide comments and offer our support for proposed rule requiring additional clarity related to investment company names entitled "*Investment Company Names.*"[1] We believe that investment company names clearly influence investment decisions, and investors deserve clarity regarding the investment strategy utilized by funds in order for investors to make more informed investment decisions.The Names Proposal represents a significant step in the right direction to address structural problems with fund labels.

The name of an investment company communicates a significant amount of information to an investor. Most pertinently, in recent years, across Sustainable Investment Strategies, naming conventions have given rise to instances of "greenwashing". We believe changes required in the Names Proposal will move the fund universe closer toward the elimination of deceptive and misleading marketing and investment practices among some funds while also helping in the fight to eliminate 'greenwashing' so as to protect underlying investors. Although we support this Names Proposal, we would like to offer our thoughts for the Securities and Exchange Commission (SEC) to consider in formulating the final rule.

[1] *Investment Company Names*, Securities Exchange Act Release No. 94981 (May 25, 2022), 87 FR 36594 (June 17, 2022) [hereinafter "Names Proposal"].

LTSE Services, Inc. is a data, analytics and advisory driven capital markets platform specifically designed for public companies and private companies planning to enter the public markets and an affiliate of Long-Term Stock Exchange, Inc. (Exchange)[2]. We strive to help create a more sustainable world by encouraging public companies that join the LTSE ecosystem to integrate sustainability into long-term business models whose purpose is to generate significant long-term value for all of their respective stakeholders. In our view, the Environmental, Social and Governance (ESG) analysis is crucial for both companies and investors in understanding the risks and opportunities associated with the transition towards a more sustainable economy.

We support the following aspects of the Names Proposal and believe these requirements will help eliminate deceptive and misleading investment marketing practices, while also helping reduce "greenwashing" across sustainable investment strategies, namely, those that use ESG or similar terms within their names and/or investment strategies:

- additional disclosure regarding investment company names;
- increasing the universe of funds subject to the names rule;
- employing plain english meanings; and
- enhanced disclosures related to criteria utilized by funds utilizing ESG or similar terms in their names in selecting investments.

We also support the extension of the requirement for funds to adopt a policy to invest at least 80 percent of assets in accordance with the stated investment focus (the 80% Rule) to cover funds labeled "sustainable" or "ESG" funds.

The Names Proposal seeks to address broad categories of investment company names that could potentially mislead investors about an investment company's investments and risks. This proposed rule, in its current form, may force all funds — not just those that incorporate environmental, social and governance factors — to re-evaluate their names and strategies. However, in drafting this letter, given that the area of "Sustainable Investing" grew and continues to grow at an extremely rapid pace[3], we focused our comments on examples related to "Sustainable Investment Strategies", namely, those with "ESG/Green/Sustainable/Impact" or similar labels.

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[2] The Exchange is an SEC-registered national securities exchange with a mission to serve companies and investors who share a long-term vision.

[3] U.S. sustainable investments increased from $639 billion in assets under management ("AUM") in 1995 to $17.1 trillion by 2020. The end of the last decade in particular saw extensive growth as the total U.S.-domiciled assets integrating ESG strategies grew from $12.0 trillion in 2018 to $17.1 trillion by 2020. This represented a 42% increase that brought the total amount of assets considering ESG strategies to 33%, or 1 in 3 dollars of total U.S. assets that are professionally managed. *See,* U.S. Sustainable Investing Forum, The Report on U.S. Sustainable and Impact Investing Trends (Nov. 16, 2020), *available at: https://www.ussif.org/files/Trends/2020_Trends_Highlights_OnePager.pdf and* "Global passive assets hit $15tn as ETF boom heats up", Financial Times, *https://www.ft.com/content/7d5c2468-619c-4c4b-b3e7-b0da015e939d*.

Under current practice, the regulation of names under the so-called names rule (Names Rule)[4] includes only "*the type of investment, industry, country or geographic region*", as well as their "focuses". It does not require a discussion of critically important investment strategies. Historically, the SEC has not applied the Names Rule to names that correspond to a particular investment focus or strategy. However, in conducting investment due-diligence, a '*reasonable investor*' would analyze and distinguish between strategies employed and names utilized. Therefore, we commend the SEC for extending this rule to cover investment strategies. As the Names Proposal currently reads, funds that adopt and implement the '80% Rule' will also be required to disclose in their prospectus the precise meaning of the terms used in their name – a meaning which must be consistent with plain English or industry established usage – and the criteria used to select investments that the terms describe.

At present, investors continue to apply their own definitions of ESG or sustainable investing. As a result, the definition of ESG remains elusive and it is unlikely that this will change in the near future due to the plethora and nuances within the strategies involved. For example, if an investor is looking for an ESG strategy, and they read an ESG or sustainable title, they likely project their own expectation of what that fund offers. Requiring funds to define and explain these terms to investors can be helpful and a useful step toward adding clarity for investors. However, under the Names Proposal, funds would still be permitted to define "ESG" and their "ESG strategy" how they wish. We find this aspect of the proposal to be slightly subjective due to the lack of defined terms. As a result, this practice may result in overlapping definitions and/or strategies which will be confusing to investors. For example, an "ESG Tilt" strategy may be defined differently from one fund to another. Funds use these terms in different ways, therefore, investors who try to compare funds risk ending up even more confused. While definitions in an investment prospectus may result in less greenwashing, it may not achieve a secondary outcome, of ensuring investors are investing in the underlying strategies that meet their objectives. We recommend that the SEC consider broadly regulating the definitions in the final rule to avoid this issue.

We believe that the best way to achieve transparency and comparability and to protect investors, with respect to aligning investor expectations with their investments and eliminating the effects of greenwashing, is to provide guidance on the terms and strategies an investor could use, and require funds to explain to investors how the pre-defined ESG and sustainability themes and strategies, relate to the fund's objectives, constraints, and characteristics of investments in a way that is both transparent and comparable.

We also applaud the SEC's recent proposal related to *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices*.[5] We have provided further suggestions in our comment letter that addresses these enhanced disclosures.

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[4] See 17 C.F.R. § 270.35d-1(a)(2).

[5] *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices*, Securities Exchange Act Release No. 94985 (May 25, 2022), 87 FR 36654 (June 17, 2022)[Enhanced Disclosures Rule].

We would like to commend the SEC for their approach to funds that are currently labeled as “ESG integrated”. Under the Names Proposal, a fund that considers ESG factors alongside, but not more centrally than other non-ESG factors in its investment decisions, would not be permitted to use ESG or similar terminology in its name. Under the Names Proposal, doing so would automatically be defined to be materially deceptive or misleading.

It has always been our view that ESG analysis is crucial for both companies and investors in understanding the risks and opportunities associated with the transition towards a more sustainable economy. It represents a crucial element of traditional fundamental analysis. To that end, ESG analysis is not new, and investors have been performing such analysis for many years. It is only in recent years, with the availability of additional data and the increase in the demand for sustainable investment solutions that funds have been re-labelled as “ESG integrated”. Without ESG analysis, a fundamental investor's work is incomplete and we would question the investment rigor employed. We would like to note that, as fiduciaries, funds should not be in a position to market this as a unique selling-proposition as it is an absolute necessity in order to protect investors in the transition towards a more sustainable economy.

Further, as highlighted in the SEC’s request for comment in 2020[6], since the SEC adopted the Names Rule[7], there has been significant growth in “passive management” funds that seek to replicate the return on a particular index[8], as well as, an increase in number of funds with investment mandates that include criteria that require some degree of qualitative assessment or judgment of certain characteristics (such as funds that include one or more environmental, social, and governance-oriented assessments or judgments in their investment mandates (e.g., “ESG” investment mandates)) and such funds are still growing.[9]

ESG rating agencies play a significant role in index creation, and in turn in passive investment strategies. In considering the methodological issues and risk models of ESG rating agencies, we believe the SEC should consider regulating the role of ESG rating agencies, in order to help improve the transparency, consistency and accuracy of ESG ratings which we believe will ultimately result in less risk for investors when deciding what investments to make.

Conclusion

We would like to commend the SEC for its thoughtful consideration of issues related to the use by certain investment companies of sustainability terminology, including ESG or similar terms, in

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[6] See generally SEC, Request for Comments on Fund Names, (March 2, 2020).
[7] See 17 C.F.R. § 270.35d-1(a)(2).
[8] In 2001, there were approximately 432 mutual fund and ETF index funds. As of the end of 2021, index funds grew to 1,732.
[9] Approximately 65 funds (excluding unit investment trusts) included the terms “ESG”, “Clean”, “Environmental”, “Impact”, “Responsible”, “Social”, or “Sustainable” in their names as of December 31, 2007. In 2020, there were 836 registered investment companies with ESG assets, including 718 mutual funds and 945 ETFs.

fund names and the addition of additional disclosure requirements related to investment criteria utilized by such funds. We generally support adoption of the Names Proposal with the changes noted above. We believe that this proposed rule represents a crucial step towards ensuring that investors get a clear and accurate picture of fund investment practices and criteria used to select investments so that their interests are better protected.

We would like to stress that the focus of regulation in this area should be on investment practices of investment funds, in order to encourage changes in business practices that will address the realities of the sustainability issues that impact the current global economy, and the steps that need to be taken to address such issues. *We* believe that focusing this regulation *primarily on* "what's in a name" *to prevent greenwashing and* enhance informed investment decisions is important but doesn't go far enough. As a result, we have also highlighted changes we believe are necessary to to focus on the overall intent of these changes on regulation which moves society toward the creation of a more sustainable world.

Thank you for your consideration. We appreciate the opportunity to comment on this Names Proposal.

Please feel free to contact us with any questions or if we can provide any additional information.

Sincerely,

LTSE Services, Inc.

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