

August 16, 2022

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
Washington, DC

RE: File Number S7-17-22

Dear Ms. Countryman,

On behalf of BlueMark and Tideline, we want to thank you for the opportunity to submit comments on the SEC's proposed rule, 'Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices.' The below comments are informed by: (i) BlueMark's experience as a leading provider of impact verification for the sustainable and impact investing market, having completed more than 96 third-party verifications of impact management practices and performance data for a wide range of investors (managing over US\$184 billion in combined impact assets) globally; (ii) Tideline's role as a leading consultant helping institutional clients design and implement disciplined impact management and measurement systems and practices; and (iii) my own 30+ years of experience in traditional finance, risk management, and ESG and impact investing, including founding and leading J.P. Morgan's Social Finance business from 2007-2012.

We welcome the publication of the proposed rule and supports the SEC's objectives to facilitate enhanced disclosures of ESG issues to clients and shareholders. We share the SEC's goal to promote greater transparency and accountability in the rapidly growing ESG and impact investing market and to limit the risk of "greenwashing" and "impact-washing."

In summary:

- We support the SEC's proposal to classify funds into distinct categories, namely, *Integration Funds*, *ESG-Focused Funds*, and *Impact Funds*.
- We recommend the SEC leverage existing industry frameworks for labeling and explain how the proposed labeling system complements other classification schemes.
- In addition, we propose there is merit in classifying *Impact Funds* as a separate category rather than as a subset of *ESG-Focused Funds*.
- Further, we recommend the SEC encourage investors to adopt best practices in impact reporting, with a particular focus on improving its clarity and completeness.
- Finally, we believe the SEC should encourage investors to seek third-party ESG and impact assurance to further increase transparency and accountability.

We have long believed that impact classification and appropriate labeling of investment products are foundational to improved clarity and suitability screening for investors.ⁱ As such, we recommend the SEC leverage existing industry frameworks for fund labeling and explain how the proposed labeling system would map to voluntary classification schemes such as the Impact Management Project's (IMP) "Avoid, Benefit, Contribute" taxonomy as well as existing regulatory classifications like the EU's Sustainable Finance Disclosure Regulation's (SFDR)ⁱⁱ Article 6, 8, and 9. Harmonization with existing voluntary standards and regulatory frameworks will help investors navigate the increasingly complex web of disclosure requirements.

We are particularly encouraged by the SEC's distinction between *Integration Funds* - in which "ESG factors are generally no more significant than other [non-ESG] factors in the investment selection process, such that ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio" - and *ESG-Focused Funds* - which use ESG Factors "as a significant or main considering in selecting investments or in engaging with portfolio companies." This distinction is critical to overcoming one of the most fundamental sources of confusion for investors regarding whether a manager is seeking certain ESG results in their own right or if the manager considers ESG factors simply as a by-product of a strategy seeking financial performance results only. To support this differentiation and promote greater consensus on best practice frameworks, we would also urge the SEC to encourage that all funds disclose the market standards and frameworks they use or align to manage ESG factors.

Next, we urge the SEC to identify *Impact Funds* as a separate category of funds rather than as a subset of *ESG-Focused Funds*. There has been significant market consensus around a clear distinction between impact and ESG strategies, and it is important that the former be held to a higher level of accountability. *Impact Funds* in general should display strong commitment and performance as it relates to three core pillars of impact management - intentionality, contribution, and measurement - as laid out in the Operating Principles for Impact Management,ⁱⁱⁱ a leading impact management practice standard for impact investors. The importance of these three pillars is also reflected in our own work at Tideline.^{iv} To be sure, our own work primarily in private markets - and the research of others in public markets^v - confirms that *ESG* practices and performance and *impact* practices and performance are quite distinct, with *ESG* outcomes generally focused on the "how" of company operations, and *impact* outcomes focused on the "what" of company products and services. While both practices and expertise are important, there is no inherent correlation between strong *ESG* practices and strong *impact* practices.

Further, we recommend the SEC encourage the adoption of emerging best practices in impact management and reporting by *Impact Funds*. The market's understanding of what constitutes strong impact management practice has advanced considerably in recent years,

thanks to standards like the Operating Principles for Impact Management and SDG Impact as well as the field-building work of the Impact Management Project. Our recent 'Raising the Bar' report^{vi} revealed significant agreement among asset owners, asset managers, and standard-setting bodies on the core features of decision-useful and high-quality impact reporting. These features are organized around two key dimensions:

- **Clarity:** a quality impact report presents impact information in a manner that is easily digestible and that facilitates interpretation among a range of stakeholders.
- **Completeness:** a quality impact report provides the full balance of relevant information needed to understand impact results and risks, including by avoiding the “cherry picking” of positive metrics and case studies.

Next, we believe that the SEC’s objective to promote reporting of reliable, complete, and comparable ESG factors through the proposed rules cannot be fulfilled with disclosures alone. We recommend the SEC be clear about the accountability mechanisms for mislabeling or incorrect disclosures and to add guidance on the role of third-party ESG and impact assurance providers for *ESG-Focused* and *Impact Funds*.

Third-party ESG and impact assurance play an important role in increasing transparency, accountability, and integrity in the investing market. As a testament to the value of assurance, the impact investing industry has already made some progress in adopting robust voluntary standards and engaging third-party assurance providers. Investors with more than US\$467 billion in combined impact assets have already committed to independent, third-party verification.^{vii}

We believe the SEC can catalyze the adoption of the proposed rules by adding guidance to encourage investors to seek third-party ESG and impact assurance. Such guidance could include information on the types of ESG and impact factors disclosed, including on both practices (strategies) and performance (results); encouragement for investment advisers and companies to engage third-party assurance providers rather than an internal audit approach to enable standardization and avoid conflicts of interest; and regular reviews of assurance processes to ensure quality control and spotlight industry trends. □

We, again, thank you for taking on this initiative and for the opportunity to submit comments. We would be pleased to discuss our comments in more detail and can be contacted at [REDACTED]

Sincerely,

Christina Leijonhufvud
CEO, BlueMark
Managing Partner, Tideline

Mohit Saini
Senior Associate, BlueMark

About BlueMark:

BlueMark is a leading provider of impact verification services for investors and companies. Founded in 2020, BlueMark's mission is to "strengthen trust in impact investing." BlueMark's verification methodologies draw on a range of industry standards, frameworks, and regulations, including the Impact Management Project, the Operating Principles for Impact Management, the Principles for Responsible Investment, SDG Impact, and the Sustainable Finance Disclosure Regulation. Learn more about BlueMark at www.bluemarktideline.com.

About Tideline:

Tideline is a women-owned, specialist consultant for the impact investing industry. Since 2014, Tideline has provided expert, tailored, and actionable advice to institutional asset managers and allocators deploying over \$250 billion in impact investment strategies and solutions. Learn more about Tideline at www.tideline.com.

ⁱ See Tideline's pioneering 2016 paper *Navigating Impact Investing - The Opportunity in Impact Classes* which coined the term 'impact classes' as well as its 2021 paper *Truth in Impact - A Guide to Impact Labeling*

ⁱⁱ European Union, *Sustainable Finance Disclosure Regulation*, 2019

ⁱⁱⁱ The *Operating Principles for Impact Management* were introduced in April 2019 as a set of best practices for how investors should integrate impact considerations throughout the investment lifecycle.

^{iv} Tideline, *Truth in Impact - A Guide to Impact Labeling*, 2021

^v See Aperio by BlackRock blog, *From an ESG Perspective, Who Decides If a Company Is "Good?"*, 2022

^{vi} BlueMark, *Raising the Bar - Aligning on the Key Elements of Impact Performance Reporting*, 2022

^{vii} As of August 2022, 162 investors with US\$ 467 billion in covered assets, have signed onto the Operating Principles for Impact Management. These Principles also include a requirement that all signatories seek independent verification of their alignment.