August 16, 2022

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

Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices [File Number S7–17–22]

Via: https://www.sec.gov/cgi-bin/ruling-comments

Dear Ms. Countryman:

I am pleased to submit these comments regarding the proposed rule entitled “Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices.”1

Introduction

In principle, this rulemaking and the associated rulemaking governing investment company names is one where conservatives, libertarians, liberals and potentially even progressives could find common ground. All should support a rule that required honesty with respect to ESG and policed the blatant disingenuity or worse that is common with respect to ESG investing.

The proposed rule, as written, neither does the job it purports to do nor, I suspect, will serve as the basis for pan-ideological common ground. It could, however, be modified to better accomplish the objectives it claims to be furthering and to achieve support among those with different political philosophies. The rule, as written, will heavily bureaucratize ESG investing and impose substantial costs on both the industry and on investors but do relatively little to actually impede willing misrepresentation regarding ESG investing.

In a free society, investors have the right to knowingly and voluntarily invest their own money in companies and projects that have a dual purpose. In other words, investors knowingly and voluntarily may make investments that deliver a lower return because the investment is also directed at some social purpose that the investor chooses to support (or refrain from supporting). The ability of investors to do this is entirely consonant with a free society and none of us should impede investors’ ability to so invest.

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In a well-functioning market with good, relatively low-cost information and low transactions costs, the risk adjusted, after-tax returns to investments will tend to equalize relatively quickly. Return differences are arbitrag ed away. U.S. capital markets offer better information and lower transactions costs than most. Ergo, any investment, company, or fund that has as its purpose something other than earning the highest possible return will typically earn a lower than average return. The biggest fraud perpetrated by the ESG fund managers and ESG proponents is denying that this trade off exists and purporting to sell products that (1) have the same or higher return as other investments and (2) achieve various social objectives. In a well-functioning, competitive market like the U.S. capital market, you cannot have your cake and eat it too over any extended period of time. Moreover, accepting arguendo the false claims that ESG investing can achieve superior or even comparable returns, then ESG is irrelevant. The allegedly higher potential return is the reason to undertake the investment, not ESG factors. But for the allegedly higher returns, the ESG investment is not permissible for those with a fiduciary or similar duty to investors.

Fiduciaries, investment managers, investment advisers and, for that matter, corporate managements violate their lawful fiduciary (or similar) duties by furthering their own political or social preferences at the expense of investors. Furthermore, under the securities laws, fiduciaries, investment managers or investment advisers may not misrepresent what they are doing with investors’ money.

Protecting investors from fraud is a core SEC function. To the extent the climate-industrial complex is making billions of dollars selling trillions of dollars in securities and then not doing what they claimed with investors money, I support the Commission’s effort to demand that they be truthful.

It is deeply ironic that in two rulemakings governing the use of ESG factors in the management of, or the naming of, investment funds, the Commission does not define the terms ESG or “ESG factors.” In this rulemaking, this failure makes the rule much less effective and much more arbitrary. In the “Investment Company Names” rulemaking, it makes the entire enterprise incoherent. The fact that the Commission is unable to define ESG demonstrates that ESG, as a concept, is built on sand and does not reflect rigorous thinking. Although I am sympathetic to the problem the Commission faces in defining ESG, my sympathy is tempered by the evident interest of the Commission to proceed far down the ESG path without thinking very seriously about what that really means or the adverse impact that it will have on millions of Americans.

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2 See, for example, Max M. Schanzenbach and Robert H. Sitkoff, “Reconciling Fiduciary Duty and Social Conscience: The Law and Economics of ESG Investing by a Trustee,” Stanford Law Review, Vol. 72, February 2020, pp. 381-454. https://review.law.stanford.edu/wp-content/uploads/sites/3/2020/02/Schanzenbach-Sitkoff-72-Stan.-L.-Rev.-381.pdf (“Proponents of risk-return ESG have conflated a relationship between ESG factors and firm value with a profit-making opportunity for an investor, have exaggerated the potential for ESG factors to generate excess risk-adjusted returns, and have failed to appreciate the instability and lack of robustness in academic findings of asset mispricing. Finally, we conclude that our positive description of the law reflects normatively sound policy choices in light of the agency costs of managing other people’s money. The sole interest rule of trust fiduciary law prohibits a trustee from considering the trustee’s own social conscience, just as it prohibits consideration of the trustee’s own financial or political interests or those of third parties.”)

The approach adopted by the Commission in the proposed rule will inevitably result in many years of “regulation by enforcement” since the Commission has chosen to not regulate by regulation. Market actors will only determine what the Commission actually means by ESG or “ESG factors” by watching what enforcement actions it launches over a period of years and adjusting their behavior accordingly. Favoritism is likely to be applied. Whether or not favoritism and uneven enforcement is the Commission’s actual practice, it will certainly be presumed that the Commission is responding to adroit lobbying by the largest market participants. Uncertainty will be much higher. Clarity regarding what is expected of regulated parties will be markedly reduced. This is not how a responsible agency regulates.

These problems could be marked reduced by the Commission making it explicitly clear that environmental, social or governance factors can be understood in a non-progressive sense notwithstanding the progressive origin of the term or, alternatively, by the Commission being forthright about its intent of enforcing ESG in the sense that its progressive proponents understand the term. In this latter case, funds that do not wish to further progressive political ends can simply stop using the term ESG or allied terms as defined by the Commission. Either approach would be preferably to what has been proposed. See Response 1 below for details.

Specific Requests for Comment

Question 1. We are not proposing to define “ESG” or similar terms and, instead, we are proposing to require funds to disclose to investors (1) how they incorporate ESG factors into their investment selection processes and (2) how they incorporate ESG factors in their investment strategies. Is this approach appropriate? Should we seek to define “ESG” or any of its subparts in the forms? Should we provide a non-exhaustive list of examples of ESG factors in the forms? Should we define certain types of factors as being ESG but allow funds to add additional factors to that concept if they choose? Are there any other approaches that we should take in providing guidance to funds as to what constitutes ESG?

Response 1. So given the failure of the proposed rule to define ESG or ESG factors, here are my central questions for the Commission: If a fund defines ESG, for example, by saying that “to us social (S) means achieving the highest return for our investors because we believe that is best means of achieving a higher standard of living for the American people and to enhance social welfare,” is the SEC going to let that suffice? If a fund defines ESG to mean “to us environmental (E) means complying with all applicable environmental laws, period” is the SEC going to let that suffice? If a fund defines G as meaning governance by our Board of Directors in manner that it deems to be in the best interest of the corporation (or its shareholders), is that going to suffice? If a fund defines S as investing to cure dread diseases or to enhance food production, will that suffice? If conservative or libertarian funds define S in distinctly non-

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081/snasdaq2020081-8204282-227462.pdf; David R. Burton, “Nasdaq’s Proposed Board Diversity Rule Is Immoral and Has No Basis in Economics,” Heritage Foundation Backgrounder No. 3591, March 9, 2021
progressive ways, is that going to pass SEC muster? If a fund decides that natural gas-derived fertilizer and fossil fuels are key to a decent living standard and defeating abject poverty in the developing world (which they are) and that their S concerns require that they oppose forcing famine upon many millions of people in pursuit of progressive environmental (E) objectives, is that going to be okay with the SEC? If a fund defines S as requiring the rejection of racist DEI policies and affirms freedom of speech, freedom of religion and due process in the face of progressive assaults on the Bill of Rights, is the SEC going to be okay with that definition of S?

If that is so, then so be it. That means that the term ESG can reflect the true diversity of perspectives in America rather than be a stalking horse for progressive politics. But if that is the case then (1) the SEC should not pretend that the rule will lead to more standardized ESG criteria as it does throughout the proposing release and (2) it should make it clear in the proposing release and the rule that non-progressive understandings of the term ESG and its component parts are permitted. If it is not so, then the SEC should not pretend that it is being neutral in its posture towards ESG. It is really adopting a rule that will be enforced as if it contains a substantive progressive understanding of the term “ESG.” This, of course, makes a certain degree of sense since the term “ESG,” as most commonly used, is a smokescreen for the progressive political agenda. A majority of people, whether sympathetic to or opposed to ESG, understand the three letters in that way. But if that is what the SEC is really doing here, then the Commission should be honest, not deceptive, with the public and those it seeks to regulate. The SEC should be forthright and say that it will be enforcing ESG as understood by progressives. And it should define the term accordingly – in the rule. We should not have to wait until a large number of enforcement actions are launched to know what the SEC is really doing with this rulemaking.

It is emphatically not the case, by the way, that there is any universal progressive understanding of what environmental, conservation, social or governance mean as standalone terms. It is only when these ideas are transmogrified into an acronym – ESG -- that they are widely understood as indicative of the current progressive political agenda.

All of that said, I am seriously sympathetic to problem that the Commission faces in trying to define ESG. ESG as a concept is built on sand. I have read countless journal articles, reports and articles on ESG. It is almost never defined and when it is, the definition is vacuous. In practice, ESG investing simply means investing in accordance with the latest progressive cause du jour. Its meaning morphs along with progressive political priorities.

The first step in defining ESG is to understand that ESG is not a new concept. It is an old concept with a new name. What is new about ESG is the ubiquitousness and stridency of ESG proponents both within and without government.

ESG is part of a major effort under way to redefine the purpose of businesses to achieve various social or political objectives unrelated to earning a return, satisfying customers or treating workers or suppliers fairly. This effort seeks to politicize virtually every aspect of daily life. It seeks to redefine the purpose of business as the pursuit of progressive social and political objectives that have little to do with people who have any real connection to the business and only a tertiary concern for shareholder returns. ESG is also being done under the banner of social
justice, 4 corporate social responsibility (CSR), stakeholder theory, wokeness, critical race theory (CRT), socially responsible investing (SRI), sustainability, diversity, business ethics, common good capitalism or corporate actual responsibility. 5

With respect to capital markets and corporate governance, these new objectives would be enforced by various means, including (1) federal and state statutes and regulations, (2) the rules of so-called self-regulatory organizations (SROs) which have been delegated rule-making authority by government, (3) actions by government pension funds or other government actors in their capacity as shareholders and (4) in the private sector involving (i) actions by “woke” corporate managements and boards that are not in the interest of shareholders, (ii) share voting recommendations by oligopolistic proxy-advisory firms, (iii) share-voting by institutional investors or investment advisers that reduce shareholder returns without shareholder consent in violation of fiduciary duties and lending or (iv) investment or lending decisions by banks and investment banks. These efforts are typically being promoted by progressive voices but, increasingly, there are conservatives seeking government intervention regarding large corporation governance and the regulation of corporate purpose or actions to achieve ‘conservative’ political ends.

If successful, these attempts to redefine the purpose of business would have marked adverse social consequences. To wit:

- Management would be even less accountable to anyone since the metrics of success will become highly amorphous and be constantly changing.
- Businesses would become less productive and less competitive. Jobs would be lost, and wages would grow more slowly.
- The return to investors can be expected to decline. Retirement incomes will decline.
- By creating large inefficiencies in the economy and allocating resources politically, the social welfare cost of going down this road would be considerable. This impact will be most dramatic in developing countries.

Question 6. Should we, as proposed, require an Integration Fund that considers the GHG emissions of its portfolio holdings as an ESG factor in its investment selection process, to disclose how it considers the GHG emissions of its portfolio holdings? Should the description, as proposed, include a description of the methodology such a fund uses for this purpose? Would investors find this narrative disclosure useful to make better informed investment decisions? Should we require Integration Funds to disclose quantitative information or other GHG metrics, in addition to or in lieu of, the narrative disclosure? If so, what type of quantitative information of GHG metrics should be disclosed? For instance, should we require Integration Funds that consider GHG emissions as a part of their investment selection process to disclose the same standardized GHG metrics we are requiring of certain ESG-Focused Funds? Would such quantitative data be useful to investors?

Response 6. Anything relating to scope 3 emissions should be dropped. As I explained elsewhere, scope 3 emissions reporting is genuinely useless for any purpose because (1) the

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4 This was Nasdaq’s favorite term in its overtly racist board diversity rule ratified by the SEC.
5 The last two are ‘conservative’ versions of ESG.
emissions reporting will double, treble, quadruple count the same emissions in random ways and (2) the customer and supplier emissions reporting will largely be fabricated information.\textsuperscript{6} Scope 3 reporting is “information” that is so utterly unreliable that it should not be included anywhere in Commission reports.

Question 13. Should we, as proposed, define an ESG-Focused Fund as a fund that focuses on one or more ESG factors by using them as a significant or main consideration in selecting its investment or its engagement strategy with issuers of its investments?

Response 13. As discussed above in Response 1 and the Introduction, the Commission needs to make it clear in the rule that a fund may define “ESG factors” in non-progressive ways or affirmatively define ESG factors.

Question 14. As discussed above, a fund that applies a screen to include or exclude investments based on ESG factors would meet the proposed definition of an ESG-Focused Fund. Should our definition of an ESG-Focused Fund specifically reference a fund that follows an ESG-related index or a screen based on ESG factors to include or exclude investments? Should our definition take into account whether a fund’s use of an ESG-related index or screen is to promote ESG goals? Should the reference to engagement be a means of identifying Impact Funds, rather than ESG-Focused Funds generally?

Response 14. As discussed above in Response 1 and the Introduction, the Commission needs to make it clear in the rule that a fund may define “ESG factors” in non-progressive ways or affirmatively define ESG factors. This in turn would clarify what is meant by an “ESG” index or screen.

Question 22. Should we, as proposed, permit a fund to replace the term “ESG” in the ESG Strategy Overview table with another term or phrase that more accurately describes the ESG factors that the fund considers? Should a fund be required to replace ESG with a different term in certain circumstances, such as when it focuses on a particular issue or set of issues? Should we mandate that funds choose from a list of alternative terms to improve comparability, and, if so, what terms should those be?

Response 22. Accuracy is highly desirable. As discussed above in Response 1 and the Introduction, the Commission needs to make it clear in the rule that a fund may define “ESG factors” in non-progressive ways or affirmatively define ESG factors. In addition, as also discussed above, ESG is new terminology for an entire family of progressive ideas that have been around for a long time. Permitting alternative terms seems appropriate but the Commission should at the very least provide a non-exclusive list of permitted terms. Examples might include social justice, corporate social responsibility (CSR), stakeholder theory, wokeness, critical race theory (CRT), socially responsible investing (SRI), sustainability, diversity, ethical investing, or common good investing.

\textsuperscript{6} See Comment Letter of David R. Burton regarding “The Enhancement and Standardization of Climate-Related Disclosures for Investors,” June 17, 2022, pp. 16-17 \url{https://www.sec.gov/comments/s7-10-22/s71022-20131980-302443.pdf}
Question 26. Should we, as proposed, require funds to include the types of common ESG strategies in a ‘‘check box’’ format? Is this format useful to an investor so that the investor can quickly and easily understand the fund’s ESG strategy and compare it with the ESG strategies used by other funds? Alternatively, as opposed to listing all the strategies and checking the ones that apply, should funds list only the ESG strategies that apply to them?

Response 26. The boxes that can be check beg as many questions as they answer. They are only very mildly informative.

Question 27. Should the instructions include definitions or descriptions for each common strategy on the list, or are they sufficiently self-explanatory?

Response 27. If they are going to be even mildly useful to prospective investors, yes. Checking a box containing an amorphous, undefined term doesn’t tell anybody very much.

Question 28. Would there be instances where a fund might face ambiguity as to whether a strategy on the list accurately describes a technique the fund utilizes? For example, are there instances where it might be ambiguous whether a fund applies an inclusionary or exclusionary screen? If so, is there alternative disclosure a fund should provide?

Response 28. The most ambiguous boxes that can be check are “Seeks to achieve a specific impact” and “Engagement with issuers.” These terms could literally mean almost anything.

Question 53. Should we, as proposed, require an Impact Fund disclose the relationship between the impact the Fund is seeking to achieve and financial return(s)? Should we require this disclosure of all ESG-Focused Funds?

Response 53. Yes. And you should not let lazy, fact and evidence free assertions suffice. This requirement alone, if actually enforced, will reduce the number of ESG funds dramatically because they will in practice be forced to admit that returns are being sacrificed to achieve social and political objectives.

Question 54. Should we, as proposed, require an Impact Fund to disclose how it is seeking to achieve its impact, including how it measures progress towards impact? Should we instead define an Impact Fund as an ESG-Focused Fund that seeks to achieve ‘‘measurable’’ ESG impact or impacts rather than define an ESG-Focused Fund as a fund that seeks to achieve a specific impact, as proposed?

Response 54. If a fund purports to have a “measurable” ESG impact, then it should be required to specific how that measurable impact would be measured and to actually report about whether those metrics have been met. Measurable should be defined as quantifiable by some objective, measurable means. Otherwise, the terms measurable or metrics mean nothing.

Question 59. As proposed, any fund for which proxy voting or engagement with issuers is a significant means of implementing the Fund’s ESG strategy would indicate it pursues the applicable strategy by checking the box for proxy voting or engagement (or both, as applicable).
Should this be the case, even for a fund that uses investment selection as the primary method for achieving its ESG goal? Is the proposed requirement that proxy voting or engagement with issuers be a “significant” means of implementing the fund’s ESG strategy clear? Should we provide additional guidance on what constitutes a “significant” means of implementing a fund’s ESG strategy? Should we provide that a fund’s proxy voting would only be a “significant” means of implementing the fund’s ESG strategy if the fund engages in activity beyond simply exercising its right to vote, for example by developing or proposing initiatives directly? Should we provide for additional requirements in order for a fund to check the applicable box indicating that it uses proxy voting or engagement with issuers to implement its ESG strategy?

Response 59. “Engagement” can literally mean anything. For this to have any meaning to investors, it needs to be defined and reported.

Question 61. Is there additional information that should be disclosed in the statutory prospectus about the ESG-Focused Fund’s specific or supplemental proxy voting policies regarding how it votes on ESG issues? For example, should we require a fund to provide a narrative description of its specific or supplemental proxy voting policies regarding how it votes on ESG issues? Can those policies be described briefly in a way that is understandable to investors? What other disclosure would help an investor understand how the fund votes proxies on ESG issues?

Response 61. If the fund is claiming to vote its proxies on ESG grounds, it should be required to disclose the proxy voting policies that will govern those votes. Otherwise, the claim and the reporting requirements will be vacuous.

Question 77. Should we, as proposed, require any fund that indicates that it uses proxy voting as a significant means of implementing its ESG strategy to disclose the percentage of voting matters during the reporting period for which the fund voted in furtherance of the initiative? Should we permit the fund to limit this disclosure to voting matters involving the ESG factors the fund incorporates into its investment decisions, as proposed? Would investors and other market participants find this information helpful? Is there any additional information regarding their proxy voting that we should require funds to provide?

Response 77. In principle, this could be helpful in determining how aggressive a fund is in using its proxy votes to further ESG ends. A bare, global percentage would probably not be that helpful. A percentage disaggregated by subject matter and indicating how the fund voted would be more informative.

Question 79. Should funds be required to provide a narrative explanation of how they cast their proxy votes on ESG matters, either instead of or in addition to statistics on ESG matters? If we required a narrative, what elements should a fund be required to include?

Response 79. This would provide much more useful information enabling investors to determine what the fund is really doing operationally. At the very least, the votes should be disaggregated by subject matter.
Question 81. Should we, as proposed, require disclosure of the number or percentage of issuers with which the fund engaged and total number of ESG engagement meetings, as we propose to define that term? Would this information be useful to investors? Instead of, or in addition to, ESG engagement meetings, are there other metrics that we could require to be disclosed in relation to a fund’s engagement strategy? Should we require funds to provide additional context to this information beyond the number or percentage of issuers with which the fund engaged and number of engagement meetings?

Response 81: As noted, “engagement” can mean almost anything. Is a press release saying that fossil fuel companies are bad? A letter sent to the CEO urging them to be good stewards of the planet? A mutually congratulatory meeting between fund management and issuer management explaining to each other how virtuous they are? For this to have any meaning, the Commission needs to explain what it means by engagement.

Question 83. Is our proposed definition of “ESG engagement meeting” sufficiently clear? Is it appropriate that in order for a discussion to constitute an ESG engagement meeting, the meeting must be a substantive discussion with management of an issuer advocating for one or more specific ESG goals to be accomplished over a given time period, where progress that is made toward meeting such goal is measurable, that is part of an ongoing dialogue with the issuer regarding this goal? Are there additional criteria that we should require in order for a discussion to constitute an ESG engagement meeting, for example, by requiring that meetings be with personnel of a particular seniority (such as executive officer or board member) of an issuer, requiring that the meeting must only discuss ESG issues?

Response 83. If measurable means the issuer put out X press releases or hired Y sustainability officers or ran Z commercials about how green they are, then the definition is pointless. These involve spin and do not measure meaningful outcomes. If, in contrast, it means that the issuer reduced the amount of chemical A that it put in rivers by B tons, then that might make a difference. Or that the issuer took steps that increased adoptions by A in year Z. Or that the issuer invested $X in developing country Y that providing jobs lifting Z people out of poverty.

Question 101. Should we, as proposed, require the disclosure of portfolio companies’ Scope 3 emissions to the extent they are publicly reported by a portfolio company? Should we require funds to estimate these Scope 3 emissions when they are not reported? How burdensome would this be for funds? Would the estimated Scope 3 emissions be reliable?

Response 101. Scope 3 emissions reporting should absolutely not be required. As proposed, the scope 3 emissions reporting requirement will result in double, treble or quadruple counting of the same emissions or cascading with respect to emissions. A retailer will report on emissions by its suppliers and customers. Those suppliers and customers will report on emissions by the retailer. And so on ad infinitum.

If there are 5 transactions between the original raw material and the final sale to a consumer, this will result in an overstatement of emissions by a factor five. Take, for example, a loaf of bread. Assuming that they are all issuers, the corporate farmer, the trucker, the baker, the trucker, the wholesaler, the trucker, and the retailer will all have to report the same upstream and
downstream emissions data. The same scope 3 emissions will be reported 7 times. The issuers will need to collect and report information with respect to the same emissions seven times. This is both wasteful and will likely lead to seriously misleading the public about aggregate emissions.

In addition, issuers are going to be required to essentially fabricate scope 3 emissions information regarding customers and suppliers. More kindly, they will be required to make an utterly uneducated guess.

Scope 3 emissions reporting is a mess.

Question 139. Similar to our proposal for funds, we are not proposing to define ‘‘ESG’’ or similar terms for Form ADV (the brochure and Part 1A). Instead, our proposal for Form ADV would require advisers that consider ESG factors in any significant strategy or that tailor their advisory services to the individual needs of clients based on clients’ ESG preferences, to describe the factors they consider and how they implement them. Is this approach appropriate for Form ADV? Should we seek to define ‘‘ESG’’ or any of its subparts in Form ADV? Are the terms ‘‘E,’’ ‘‘S,’’ and ‘‘G,’’ and ‘‘ESG’’ factors as we refer to them in Form ADV appropriate and clear?

Response 139. See the discussion above in Response 1.

Question 155. Should advisers that do not consider ESG factors when voting client securities be required to expressly disclose this fact in their brochures?

Response 155. No. An adviser that invests to achieve a return (which is, after all, the primary and traditional reason to invest) should not be required to explain that they do not invest for non-investment reasons.

Question 171. Should we, as proposed, require funds to report whether they follow any third-party ESG framework(s) and the name(s) of any such entities, as applicable? Should funds be required to report any other information, such as a link to the website of the framework? In light of the proliferation of such frameworks, would this information be useful to investors and other market participants? Are there ways to enhance the information provided? For example, should we allow funds to report this information only if they follow such frameworks to a certain extent? If so, how should we set such threshold for reporting?

Response 171. Yes. This would enable investors to better judge the criteria being used to invest their money and policymakers to judge if one or a few players in this market have become dominant and effectively control a large share of investment dollars.
Sincerely,

[Signature]

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