



SEC Proposes New ESG Rule Impacting Investment Advisers

On May 25, 2022, the SEC proposed [new rules](#) that would require both SEC-registered investment advisers and exempt reporting advisers (collectively, “Advisers”) to disclose whether and how they consider environmental, social, and governance (“ESG”) factors in their portfolio management processes. These new disclosures would be made via Form ADV Part 1A for all Advisers and, in addition, via Part 2A for SEC registrants. The Commission’s rule proposal also reaffirmed the SEC’s recent position that advisers incorporating ESG factors into their strategies should adopt reasonably designed ESG policies and procedures and would require registered investment companies to provide detailed ESG disclosures and information in fund prospectuses, annual reports, and other filings.

ESG “Integration,” “Focused,” and “Impact” Categories

Many of the new disclosure obligations for Advisers would require them to specify whether they or their private funds pursue ESG “Integration,” “Focused,” or “Impact” strategies.

- An “ESG Integration” strategy considers ESG factors in investment decisions but does not assign them greater weight than other non-ESG factors.
- An “ESG Focused” strategy focuses on ESG factors as a significant or primary consideration in advising clients.
- An “ESG Impact” strategy seeks to achieve one or more specific ESG impacts.

Changes to Form ADV Part 1A

Under the proposed ESG rule, all Advisers would be required to disclose certain ESG-related information on Form ADV Part 1A.

- **Advisory Business.** Advisers would disclose in Item 5 whether they consider ESG factors when advising separate account clients, whether they pursue an ESG Integration, ESG Focused, or ESG Impact strategy, which factors they consider in pursuing such strategy, and whether they follow any third-party ESG frameworks (e.g., UN PRI).
- **Other Business Activities.** Under the proposal, Advisers would disclose in Item 6 whether they hold themselves out as an ESG consultant or ESG service provider.
- **Affiliations.** The proposal would require Advisers to state in Item 7 whether any of their related persons is an ESG consultant or ESG service provider.
- **Private Funds.** Advisers to private funds would be required to disclose on Schedule D, Section 7.B.(1) whether they pursue an ESG Integration, ESG Focused, or ESG Impact strategy for each fund and which factors (environmental, social, or governance) they consider.

Changes to Form ADV Part 2A

In addition to the foregoing, SEC-registered investment advisers would be required to provide narrative disclosures regarding their ESG strategies on Form ADV Part 2A.

- **Methods of Analysis, Investment Strategies, and Risk of Loss.** The proposed rule would require registrants to describe in Item 8 any ESG factors they consider in pursuing client investment strategies, how they are incorporated into such strategies, and any criteria or methodology employed. For ESG Impact strategies, additional disclosure would be required, including the goals of each such strategy and how they are sought,



key performance indicators used to monitor progress, the strategy's time horizon, and the relationship between the strategy's impact goals and financial returns.

- **Financial Industry Affiliations.** Under the proposed rule, registered advisers would be required to describe their relationship to any affiliated ESG consultant or ESG service provider in Item 10.
- **Voting Client Securities.** Advisers whose ESG strategy includes a proxy voting component would be required to describe in Item 17 which ESG factors they consider and how they are incorporated into the adviser's proxy voting decisions.
- **Wrap Fee Brochures.** SEC-registered advisers that deliver a wrap fee brochure to clients would be required to state whether any services provided under the wrap program include ESG considerations, whether the wrap program sponsor assesses ESG factors when selecting portfolio managers, and whether the sponsor reviews the portfolio managers' application of ESG factors.

ESG Policies and Procedures

In the proposing release, the SEC reaffirmed its position (expressed in recent public comments) that advisers who incorporate ESG factors into their investment strategies are required by Rule 206(4)-7 under the Advisers Act to adopt compliance policies and procedures reasonably designed to ensure the accuracy of ESG claims and disclosures made to clients, investors, and the Commission and to promote the management of client assets in a manner consistent with such ESG claims and disclosures.

About HighCamp Compliance

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