Domini

March 8, 2022

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005

Re: Response to MSRB Request for Information on ESG Practices in the Municipal Securities Market

Dear Mr. Smith:

I am writing on behalf of Domini Impact Investments LLC ("Domini"), an investment adviser and sponsor of a proprietary family of mutual funds, to offer our response to the request for information on environmental, social and governance ("ESG") practices in the municipal securities market. Thank you for the opportunity to submit comments. Domini has an Impact Bond Fund ("Fund") which includes municipal securities. Through this Fund, we hope to serve investors seeking a fixed-income vehicle aligned with Domini's goals of seeking universal human dignity and ecological sustainability, while achieving competitive financial returns. Domini was pleased to have the Fund recognized by Environmental Finance as the 2021 Impact Fixed Income Fund.[1]

Please find our responses to the selected questions below in bold.

(B) Investor in Municipal Securities.

(1) Do you consider ESG-related information material to your investment decisions? If so, in what way?

Yes, Domini considers ESG-related information material to its investment decisions. We value ESG data in our research process and support the effort to increase ESG disclosures. We are in favor of the standardization of information to increase comparability and better inform our analysis. Domini seeks to identify investment opportunities across its five funds that meet our Impact Investment Standards and advance our two main goals of ecological sustainability and universal human dignity while seeking competitive financial returns ("Impact Investing"). The Domini Impact Bond Fund utilizes a two-step investment process, working with a subadviser. Domini identifies issuers and securities that are eligible for investment by the Fund based on the evaluation of environmental and social factors, including the core business in which an issuer engages and/or how the issuer treats its key stakeholders, such as its customers, employees, suppliers, ecosystems, local, national, and global communities, and/or investors

[1] https://www.environmental-finance.com/content/awards/impact-awards-2021/corporate-statements/impact-investing-at-the-forefront-of-fixed-income.html

(“environmental and social factors”). Our definition of material sustainability factors also reflects our belief that issuers that treat their stakeholders— communities, customers, ecosystems, employees, investors, and suppliers well will be rewarded over the long-term. Our Key Performance Indicators (KPIs) guide our analysts ability to capture relevant data within the context of a potential investment’s business operations and geographic areas and make issuer-to-issuer comparisons possible.

The Fund’s subadviser, Wellington Management Company LLP (the “Subadviser”), evaluates issuer creditworthiness and uses proprietary fundamental research to select investments to buy and sell from among those which Domini has identified as eligible for investment. The Fund will sell securities that Domini determines are no longer eligible for investment based on Domini’s ongoing evaluation of environmental and social factors.

For non-corporate issuers, we focus our evaluations on three key themes:

- Increasing access to capital, especially for those historically underserved by the mainstream financial community
- Creating public goods, especially for those most in need
- Filling capital gaps left by current financial practice

These three themes flow from our belief that healthy economies must be built on a strong foundation of fairness and opportunity for all. As an asset class, we believe fixed income is particularly well suited to help address a broad range of economic disparities in our society. Through our evaluations of both quantitative and qualitative data, we identify opportunities for impact across a broad range of issues, including access to affordable housing, education and health care, community revitalization, justice, security, water, social services, rural economic development, and environmental sustainability.

We generally consider municipal bonds to be fundamentally aligned with our investment themes of creating public goods, which are essential to meet basic needs of society, and are often not provided by the private sector. They help finance:

- Essential infrastructure and services such as buildings, roads, and power supplies
- Economic development
- Healthcare facilities and services
- Educational facilities and services
- Other services needed to close the gap between these localities and the rest of society

Municipal bonds can also help to ensure broad access to environmentally beneficial technologies to all members of society. We therefore look to invest in municipal bonds that generate environmentally positive impacts for historically marginalized communities. Municipal issuers have a key role to play in terms of:

- Low-carbon technologies
- Pollution control
- Climate adaptation, such as disaster prevention and recovery

We will seek to avoid purchasing the relatively few government-issued bonds that are explicitly issued to finance the development of projects which are fundamentally misaligned with our investment objectives, such as weapons and firearms, nuclear power, fossil fuels, for profit prisons and immigration detention centers, and alcohol, tobacco, and gambling.

We may approve an issuance at the security level even if the issuer is generally excluded, if we determine the use of proceeds is aligned with our Impact Investment Standards.

In evaluating a municipal issuer, we generally review the following factors: governance systems, whether it has a history of prudent use of public funds or a recurring pattern of widespread misappropriation of funds, the presence of corruption, controversies, or excessive fines. We evaluate municipal issuers' stakeholder relations, such as employee relations, or if there is community support or opposition to a project. To the extent available and relevant, we also seek information on outcomes for constituencies, related to health, environment, quality schools, affordability of housing, and equity. For general obligation offerings, the security is approved at an issuer level. If an issuer has several mandates, we consider alignment of the use of proceeds for the mandate with the Domini Standards.

We analyze the use of proceeds and the community that will be served. We look to purchase municipal bonds that address climate change, for example through the financing of low-carbon and climate-resilient infrastructure, and support historically underserved communities by providing increased access, for example through healthcare, education, and increased access to capital. We also look for information about the community intended to be served, for example with median household income, demographic information, or rate of insured/uninsured (for health-related issuances). In our research, we also look for ongoing disclosure on the outcomes of the financing, whether the public funds reach the intended recipients and achieve the intended purpose, and how it helped the community achieve improved outcomes.

(2) Do you generally have access to all the ESG-related information you need to make an informed investment decision? If so, can you identify the source(s) of the information you use (e.g., municipal issuer disclosures on the EMMA® website, other municipal issuer communications, time-of-trade disclosures, third-party data vendors or proprietary analyses)? If not, please identify the gaps in information and market transparency.

Yes, we generally have access to all the ESG-related information to make an informed investment decision. However, we note there is a wide disparity in the availability and quality of sustainability disclosures among fixed income issuers, especially on systemic risks such as climate change, community impacts, and racial justice.

Domini analysts conduct research to evaluate issuer and/or each offering's alignment with the Domini Impact Investment Standards. The offering document is our primary source of information, and we also rely on other publicly available information, analysis, or data. We also use other issuer specific information, such as websites and annual reports, and press.

The timeline for reviewing a fixed income offering is generally quite compressed, and when using a subadviser it is further compressed due to the communication between entities. While information is generally available in a timely manner, locating it among different sources within a compressed timeline may present a challenge linked to market transparency. The EMMA website may be useful, but given the compressed timeline, we note the importance of the ease and efficiency of use, and timely uploading of the initial offering information into the EMMA platform.

(3) Does your expectation as to the availability and sufficiency of ESG related information change depending on whether the purchase of municipal securities is made in the primary market or the secondary market? If so, how?

Our expectations on the availability and sufficiency of ESG information does not generally change if the offering is in the primary versus secondary market and our process and evaluation is the same. Once on offering is approved for alignment with our Impact Investment Standards in the primary market, it is eligible to be purchased on the secondary market by the Sub-adviser. However, we note that the quality and quantity of ESG data may be greater once an issuance is on the secondary market.

Secondary market offerings often contain information that is useful for an ESG analysis, including information on the specific project, whether there are controversies related to a project, information on the issuer, and governance information. Ongoing disclosure on use of proceeds and material changes in the issuer's ESG profile is important for any bond issuance. In addition, this information is helpful for proper pricing of the secondary market by providing continued information and progress reporting to ensure the intended purpose is being met and the operations are still intact.

(4) In light of the potential availability of ESG-related information from other sources, how can municipal issuers best present and disseminate their ESG-related information to investors? What topic areas do you believe are most relevant for municipal issuers to include when providing ESG-Related Disclosures? In your view, is it sufficient for ESG-Related Disclosures to just describe material ESG related risk factors? Is there a benefit to municipal issuers further describing the initiatives and other projects they are pursuing to address such risks?

Municipal issuers are encouraged to provide comprehensive, quality, reliable information in a timely manner in a format that is accessible, such as their websites, ESG or Sustainability Reports or ESG Tear sheets for issuances. It is valuable for municipal issuers to define not only their material ESG related risk factors, but also, the policies, management systems, evaluation tools, grievance mechanisms, and consultation processes to manage these risks and opportunities. It is also useful to have disclosure of impact assessments on relevant ESG factors and progress of the deal financed, including with ESG targets and metrics.

The topic areas that Domini believes are most relevant for municipal issuers to include when providing ESG related disclosures include, climate change, physical climate risk, water risk, pollution abatement efforts. We also want to understand the constituency served by a project, efforts on diversity, equity, and inclusion, access, and affordability.[2]

<u>Issues of Inequality, Social Impacts, and Systemic Racism</u>

[2] See, Bruno, Christopher and Henisz, Witold Jerzy, Environmental, Social, and Governance (ESG) Factors and Municipal Bond Yields (February 17, 2022). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4035995

It is important to consider the impact on marginalized and poor communities, especially with respect to infrastructure and housing. Marginalized communities often face special and additional challenges, especially those related to historical oppression including legal, and structural oppression. It is useful for municipal issuers to disclose information on the community composition, the impacts of the issuance on those communities, the existence of a racial wealth gap and how that may be addressed through the project, connections to criminal justice, policing, and prisons, the presence of income inequality and poverty, and how each of these constituencies or factors may be impacted or addressed by the issuance.[3] It is also helpful to have information on access, availability, and quality of services, especially for historically marginalized communities, including outcomes for students in schools, availability of quality affordable housing, infrastructure, or health care. Proceeds may also be used to replace and repair critical infrastructure, which may be especially necessary where lack of infrastructure has led to worse outcomes for marginalized communities. Disclosure might address the following questions: How, if at all is the issuance increase access to capital for Black, Indigenous, and People of Color (BIPOC) communities through programs such as home ownership, land ownership, or financial services and technical assistance; how is workplace equity for BIPOC addressed through this issuance, for example through BIPOC representation on senior leadership, wage equity, DEI initiatives, or workplace health and safety; how does this issuance increase the availability, access, and affordability of products and services to BIPOC or people living in poverty in an inclusive and affordable manner.

Greenhouse Gas (GHG) Emissions

Disclosure of Scope 1, 2 and 3 emissions as defined by the GHG Corporate Reporting Protocol is essential for investors to understand and address climate risk and is especially critical for any investors committed to GHG emissions goals (e.g., net zero by 2050 or sooner). These disclosures should include an inventory of direct and indirect emissions as well as time bound targets for emissions reductions and progress towards those targets. Additionally, emissions data should be disaggregated to the zip code level both for the purposes of future auditing and to understand community, racial and climate justice impacts.

Physical Risk

It is important to identify physical climate-related risks associated with a project, for example related to an infrastructure project, where long-term scenario planning is needed. Disclosure of the risks and management systems to mitigate or prevent those risks is helpful, noting that the physical location of an issuer or project may contribute to increased physical risk. Evaluation and disclosure of these risks and impacts is especially relevant among municipal issuers due to their place-based and mission-constrained operations.

Ecosystems, Nature, and Biodiversity

It is useful to provide evaluation and disclosure of the systemic risks related to ecosystems, forests, biodiversity, and nature. The stability of the global food system and risks related to infectious disease are

[3] See Capital at a Crossroads: Redirecting Capital to Accelerate Racial Equity, *Croatan Institute,* https://croataninstitute.org/2021/10/19/capital-at-a-crossroads-redirecting-capital-to-accelerate-racial-equity/

just two examples of major systemic risks related to nature loss. The interconnection of biodiversity with climate change is also relevant – the continued loss of forests and the disruption of ocean ecosystems will affect nature's ability to store carbon and may impact the ability to align with a 1.5 degree scenario. Municipal issuers are encouraged to disclose potential nature impacts or dependencies, biodiversity risks, impacts on ecosystems, and use emerging work on biodiversity and nature disclosures by the Partnership for Biodiversity Accounting Financials, the Task Force on Nature Related Disclosures ("TNFD"), the Natural Capital Finance Alliance, the World Benchmarking Alliance and others.

Systemic Risks

Disclosure requirements should capture policies, practice and performance related to these systemic risks in addition to issuer specific ESG risks and opportunities. These issues may pose systemic risks, or non-diversifiable risks, to investors. Issues like climate risk, transition risk, income inequality, systemic racism, gender equity, and access are largely overlooked by Modern Portfolio Theory ("MPT"). MPT, which is the basis of much contemporary investing, focuses instead on reducing risk through diversification. Yet more recent research demonstrates that these systemic issues are both highly financially material[4] and can be affected by investor action.[5]

One example is access to healthcare. As observed during the COVID-19 pandemic, the inability of localities to meet a surge in increased need for healthcare required restrictions in commerce, loss of municipal revenue, and the potential collapse of these markets (exasperated by balanced budget constraints). With adequate and healthy society, this systemic risk would be mitigated or eliminated.

The practice of ESG investing has begun to address these risks and opportunities but has been hindered by a lack of robust, consistent, and comparable data. Ensuring equitable, timely, and consistent access to information will help improve overall fairness and efficiency in the market.

(5) Certain market participants have expressed concerns that, while analysts and investors have expressed their desire for more standardized ESG-Related Disclosures, there is no consensus on which data and metrics are important or essential.

Do you believe such disclosures should be standardized? Do you believe there is a consensus on which data and metrics are important or essential? If so, can you provide insight as to what consensus you believe does or could exist? If not, what barriers do you believe exist in reaching a consensus?

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[4] See, for example: Dasgupta, Partha, *The Economics of Biodiversity: The Dasgupta Review*, HM Treasury (February 21), available at: https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review and Lydenberg, Musuraca, Burkart and Clark, *Why and How Investors Can Respond to Income Inequality*, UNPRI (2018), available at: https://www.unpri.org/download?ac=5599.

[5] See, for example: Lukomnik and Hawley, *Moving Beyond Modern Portfolio Theory: 1st Edition,* Routledge (April 2021), and Burkart and Lydenberg, *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change,* Berrett-Koehler Publishers (April 2021).

Yes, issuers should adopt peer-relative standardized disclosure. We anticipate that the Securities and Exchange Commission will be addressing issues related to climate risk and human capital management. To the extent possible, we strongly encourage alignment around expectations and disclosure standards.

While there may not yet be consensus on which data and metrics are important or essential for all ESG disclosure, there are widely accepted frameworks. These include the UN Sustainable Development Goals, UN Guiding Principles Reporting Framework, Global Reporting Initiative, Sustainability Accounting Standards Board (SASB), Taskforce on Climate Related Financial Disclosures (TCFD), or CDP. The information generated by a TCFD report provides valuable insight on how climate risks are understood, the governance, scenarios, and targets.   barrier may be lack of relevant expertise among issuers and their staff on relevant ESG information and emerging investor expectations. An additional barrier to reaching consensus may be the lack of dialogue between issuers, issuer representatives, and investors to discuss which information is relevant, likely use cases, expectations on disclosure, and challenges from the issuer perspective to gathering and disclosing that data. There may also be different priorities and expectations for types of disclosure among investors in order to fulfill their investment strategies.

(6) When purchasing municipal securities for ESG-Designated Funds, what ESG-related information is most useful for the investment decision? How do fund managers screen securities to ensure that they meet a fund's criteria? Once purchased, what information is most relevant in assessing that a security continues to meet the ESG criteria established for an ESG-Designated Fund?

As discussed above, the most relevant information to evaluate the alignment of an issuance with the Domini Impact Investment Standards is a review of the use of proceeds and the overall aim of the issuer, as it relates to environmental and social topics. For example, on the issue of addressing climate change, evaluation of the physical climate risks and whether an issuer or security is exposed to extreme weather events, flooding, or fires. Information on whether there are disparate climate impacts for different communities related to race, income, or other factors is also useful. It is useful to have information on how the issuer intends to achieve its stated environmental objectives, whether its objectives are grounded in climate science and data-driven solutions, and how the effectiveness will be monitored.

Once a security is purchased, we seek information about the continuation of approved aims/ business of the issuer; appropriate use of proceeds; and outcomes for the constituency that it serves.[6] It is also relevant whether the issuer/project is being evaluated by a third-party and whether it continues to meet auditing expectations.

(7) When purchasing ESG-Labeled Bonds, do you evaluate municipal securities with an independent certification differently from bonds that do not have such a certification? If so, how? If not, why not? In your view, what are the benefits to an investor of purchasing a bond with an independent certification?

At Domini we evaluate each opportunity at the security or issuer level and assess its alignment with our Impact Investment Standards, regardless of whether it is an ESG labeled bond. In the case of labeled

[6] See SOCIAL JUSTICE BONDS ACTIVEST A New Model for Equitable Infrastructure Investment (April 2021), https://www.activest.org/wp-content/uploads/2020/11/Social_Justice_Bonds_ACTIVEST_Apr2021.pdf

bonds, we consider the second-party opinion issued for labeled bonds as part of our analysis, but while disclosure within such certification may be helpful input for our evaluation, we do not rely solely on external certifications, scores, labels, or rankings to make investment decision. In fact, there are cases where a bond is labeled as “green”, and we do not determine that this bond furthers ecological sustainability in an additive way.

As the market matures and expectations are clarified, it will be helpful to have ESG data that has been verified or audited. It is also important to maintain robust expectations (for example to align with climate science) and monitor adherence of the use of proceeds to the stated ESG objectives.

(E) All Market Participants

(2) There are a number of organizations establishing voluntary standards for the issuance of ESG-Labeled Bonds, such as the ICMA and CBI. Does the availability of these voluntary, marketbased standards provide adequate guidance for issuers and transparency for investors in the municipal securities market? If not, what additional guidance or transparency do you believe are warranted with respect to ESG-Labeled Bonds?

Clear and consistent standards, with rigorous expectations grounded in climate science or relevant substantive standards, such as the SDGs or human rights norms, are important. The presence of processes to monitor adherence to those expectations will also help to improve the relevance and benefit of standards.[7]

(4) There are numerous vendors providing ESG data for the municipal securities market. Does unequal access to ESG data result in disparate impacts to investors and other market participants? Does competing ESG data create investor confusion? How could the MSRB use the EMMA website to reduce information asymmetry or investor confusion?

We are seeking consistency, reliability, and availability of timely data to all market participants. Ideally, all material ESG issues should be free of charge, readily available through publicly accessible websites, such as through EMMA. We believe EMMA has significant potential. Standardization of expectations is also important to ensure clarity and avoid misleading or contradictory analyses of data.

In addition to ensuring information is accessible to the investor community through relevant channels, information should be made accessible to relevant stakeholders. This is especially true for public entities which are addressing material ESG information as these securities are intended to provide social or environmental benefits. Additional consultations or rulemaking regarding ESG disclosure may be beneficial to provide the opportunity for all stakeholders to provide input and share their perspective, especially on topics that require broader consensus such as climate-related risks or diversity information (both gender and race/ethnicity).

[7] A Framework for Strengthening Municipal Market Green Bond Labeling, *Center for American Progress,* https://www.americanprogress.org/article/framework-strengthening-municipal-market-green-bond-labeling/

(7) What improvements could the MSRB make to the EMMA website regarding ESG-Related Disclosures, ESG-Labeled Bonds and other ESG-related information? Which improvements to the EMMA website would most enhance access for investors and other market participants to ESG-related information? Which improvements to the EMMA website would most enhance the fairness and efficiency of the municipal market?

It is useful to have consistent and comparable supplemental information which is uploaded in a standardized manner.

It will be helpful to include on the EMMA website information about the relevant ESG issues for an issuance, how these will be addressed through an offering, and management systems, goals, or strategies, how stakeholders were consulted, and the systems in place to support adherence to the intended use of proceeds from an ESG standpoint. It would also be useful to integrate TCFD reporting for the issuer and security, as well as data on demographics (similar to what is provided in an EEO-1 disclosure on diversity), and governance information about the issuer into the EMMA website.

Increased communication about the availability of the EMMA website, the type of information that is available, and how to use it would help increase adoption among investors overall, as well as those investors seeking ESG related opportunities in particular. It would be helpful to have clarity on the timeliness of information availability on EMMA, including how long prior to an offering coming to market and how long after it is available through the issuance given the compressed timeline for reviewing securities.

We thank you for the MSRB’s attention to these important topics and the opportunity to comment.

Sincerely,

Mary Beth Gallagher
Director of Engagement
Domini Impact Investments, LLC