Financial Institutions and Sustainable Finance Issues

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Issue Update

Driven by attention from regulators, investors, customers and employees, there is much debate around sustainable finance in Washington, DC and in Statehouses throughout the country. While "sustainability" has not been specifically defined, and can include many activities, bank-driven programs can be an important part of how a bank meets the needs of the communities it serves and the expectations of its customers and employees. However, in recent years, policymakers have considered, and in some cases enacted, policies that would in effect impose certain problematic requirements on banks under the guise of safety and soundness. In other cases, policymakers have tried to effectively prohibit banks from considering certain sustainability factors. We expect these efforts on both sides to continue for the foreseeable future.

Why It Matters

As policymakers focus on these issues, the potential arises for inappropriate governmental intervention into banks' business decisions and board governance. While not the only example, the most prevalent and pressing have been efforts to force financial institutions to bank or not bank a lawful company or industry.

It is appropriate for prudential banking regulators to consider how banks identify, monitor and manage financial risk. However, it is inappropriate to use bank supervision or regulation to regulate other industries indirectly – especially to discourage lending and investment or to compel it.

Preserving the ability of each bank to make its own decisions regarding sustainability initiatives and priorities based on business and market considerations will preserve the ability of all banks to meet the unique needs of the communities they serve.

Recommended Action Items

- Oppose policymaker efforts to use banks, whether through direct requirements or through safety and soundness, disclosure or other measures, to effectively regulate or reallocate capital to or away from specific industries.
    - Regulation perceived to be taken on one side of the political spectrum will likely be countered by an opposite reaction by others. Customers are harmed when banks are put in the middle of this debate.
    - Competition is at the foundation of a functioning free market. Prohibiting financial institutions from exercising discretion in their evaluation of risk in customer relationships is not only unnecessary in a competitive marketplace, it sets a dangerous precedent of government intervention into private business decisions.
    - Banks should be free to lend to, invest in, and generally do business with any entity or activity that is legal, without government interference. Likewise, banks should not be compelled to do business with an entity, except in the case of fair lending or anti-

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discrimination requirements. Allowing banks to make their own business decisions has helped foster the deepest and most resilient banking system in the world, and we should not undermine that.