

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
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Mr. Michael Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
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The Honorable Rostin Behnam
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Martin Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Gary Gensler
Chairman
U.S. Securities and Exchange Commission
100 F St., NE
Washington, DC 20549

RE: The impact of Environmental, Social and Governance guidance and regulatory proposals on banking

The undersigned bankers associations write to reinforce our longstanding view that bank supervision, and other purportedly neutral government requirements like disclosures, must not become a means of allocating capital or implementing unrelated policy preferences. As Environmental, Social and Governance (ESG) guidance and regulatory proposals proliferate, they are often cast as flexible, non-binding, or targeted to certain segments of the market, while allowing for long transitions. In reality, the individual and cumulative effects of these agency actions have the potential to be acute, widespread, and anything but neutral. There is growing concern from our member banks about the impact those efforts may have on their continued ability to provide critical financial services to the customers and the communities they currently serve.

Our basic principle is simple: Banks should be free to lend to, invest in, and generally do business with any entity or activity that is legal, without government interference. Banks should also be free not to lend, invest, or otherwise engage so long as they do not violate fair lending or other anti-discrimination laws. This free-market approach has given this nation the strongest and most resilient financial system in the world, and the increasing efforts by policymakers from all sides of the political spectrum to intervene in the intermediation of capital risks undermining that system.

The banking industry plays a key role in providing credit and other necessary financial services to individuals, companies, and communities, and they do that by taking and carefully managing risk. Regulators should make every effort to ensure banks can serve their communities and to recognize the unique challenges facing smaller banks, particularly those where the local economy relies on industries

and related suppliers that have become subject to polarized views or are otherwise undergoing transition, such as the energy sector. It is essential to understand that regulatory initiatives and disclosure requirements directed at any segment of financial institutions have implications for all others, including community banks, their counterparties, and the communities they serve. Banks must be able to make legal business decisions that are appropriate for their customers and communities as market and consumer preferences evolve.

Policymakers play an important role in addressing national and global challenges, but banks should not be used as proxies to effectuate environmental or other social policy goals.

We urge policy makers at all levels of government to be guided by the following key principles:

- To ensure that communities have the financing needed to remain vibrant and transition where needed in an orderly fashion, banks must be free to lend to, invest in, and generally do business with any entity or activity that is legal without government interference, and that banks should also be able to choose not to engage in lending, investing or other engagement so long as they do not violate fair lending or other anti-discrimination laws.
- Environmental, social and governance risks should not be considered separate categories of risk, as they are already embedded in the risks banks currently assess, monitor, and mitigate.
- Disclosure requirements should not be decoupled from longstanding concepts of materiality or imposed on banks unnecessarily. Disclosures are costly, especially for community banks and they must remain focused on what is necessary to inform business and risk management decisions, not used to allocate capital or otherwise effectuate broader policy goals.
- Regulatory efforts to ensure safety and soundness must be appropriately applied and not used intentionally or unintentionally to reallocate credit or carry out extra prudential goals.
- Regulators should work together closely to ensure that they do not exceed their mandate and stray into capital allocation; use consistent definitions; and avoid unintended consequences.

Thank you for considering our views. We stand ready to work with you on these issues of vital importance to our economy.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association

Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association