Proxy Memo: Bank of America
Climate Change Report Resolution
Annual Shareholder Meeting, May 6, 2015 in Charlotte, NC

SUBJECT: Proxy advisors and shareowners should vote “FOR” the resolution requesting Bank of America’s assessment of the greenhouse gas emissions resulting from its financing portfolio and its associated exposure to climate change risks. (Proposal 5: Climate Change Report)

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Resolution Text:

Resolved: Given the broader societal implications of climate change, shareowners request that the Board of Directors report to shareholders by September 2015, at reasonable cost and omitting proprietary information, Bank of America’s assessment of the greenhouse gas emissions resulting from its financing portfolio and its exposure to climate change risk in its lending, investing, and financing activities.

Summary Rationale for a “Yes” Vote:

The financial sector is exposed to significant risks from climate change: Banks and other financial institutions contribute to climate change through their financed emissions, which are the greenhouse gas footprint of loans, investments, and other financial services. A bank’s financed emissions dwarf its other climate impacts and expose it to significant reputational and regulatory risks. For example, in 2014, Bank of America acknowledged that “[r]eputational risk could arise if we are not developing the appropriate balance of carbon and low-carbon reliant customers or sources of energy in our business mix.”

Bank of America is highly exposed to these climate-related risks: Coal is the single largest energy-related source of greenhouse gas emissions. Between 2005 and 2013, the bank was the third largest financier of coal mining in the world. The bank faces significant risks from potential shifts in climate regulations and growing public concern about climate change.

The Bank has publicly committed to accelerate a transition to a low carbon economy but lacks clear metrics to show how it is following through on this objective: At its 2014 shareholder meeting, the bank stated: “Bank of America agrees that we need to transition from a high carbon to a low carbon economy and that the bank has a responsibility to accelerate this transition.” However, the bank has not developed associated performance measurements to track its progress towards fulfilling this commitment.

Shareowners should therefore request that Bank of America quantify its exposure to greenhouse gas emissions through its lending and financing activities and assess its associated exposure to climate change-related risks.
The Financial Sector is Exposed to Significant Risks from Climate Change

Climate change poses urgent risk management challenges for the banking industry. Banks create value for shareholders by anticipating emerging risks and opportunities in the broader economy and adjusting their risk exposures accordingly. Due to its diverse causes and effects, climate change creates threats and opportunities for corporate banking clients in several sectors. In particular, climate risks have become especially acute for greenhouse gas-intensive companies such as oil and gas producers, coal miners, and electric power producers, as well as the banks that lends to and provide other forms of financing to them.

In the U.S., imminent regulatory changes pose risks for carbon-intensive companies in the coal mining and electric power sectors. In June 2013, President Obama directed the U.S. Environmental Protection Agency to enact new restrictions on carbon emissions from new and existing power plants. He noted: “This is a challenge that does not pause for partisan gridlock; a plan to protect our country from the impacts of climate change; and a plan to lead the world in a coordinated assault on a changing climate.” These regulatory changes are likely to impact the financial viability of both new and existing coal-fired power plants and will significantly decrease domestic coal demand once enacted. Coupled with the high likelihood that Congress will revisit carbon regulation before 2020, these regulatory changes create uncertainty and risk for electric power producers, coal miners, and the banks that finance them.

Globally, as eyes turn to the Paris climate conference in 2015 and the potential for a new global climate policy framework, analyst reports from Goldman Sachs, HSBC, and Citigroup have challenged the case for continued investment in greenhouse gas-intensive industries. These reports acknowledge that power plant regulations, a potential price on carbon, and competition from renewable energy sources risk “stranding” assets such as coal mining, coal transport, and coal-fired power generation facilities. Other financial industry voices have reached similar conclusions, finding that it’s not a question of if climate risk will translate into financial risk, but when.

The risk that climate change will strand fossil fuel industry assets is of growing concern for banks and the broader finance industry. Carbon Tracker’s foundational report in 2012 found that in order to hold global temperature increases below the 2°C limit necessary to avert catastrophic climate change, 80% of existing fossil fuel reserves must remain in the ground. A 2013 Carbon Tracker report analyzed the implications of this “unburnable” carbon for the financial industry. The report found that financial industry actors ranging from institutional investors to ratings agencies and commercial banks were failing to consider the possibility of climate regulations and their implications for the valuation of coal, oil, and gas reserves. Carbon Tracker’s analysis also calls into question the financial rationale for investment in new fossil fuel production and carbon-intensive power generation infrastructure.

Other voices in the financial industry have echoed Carbon Tracker’s concerns about the potential of climate change-related risk to strand high-carbon assets and infrastructure. HSBC’s January 2013 research report “Oil & carbon revisited: Value at risk from ‘unburnable’ sources” projected that global efforts to lower carbon emissions consistent with a 2°C climate change limit could lower oil and gas prices and reduce market capitalizations of oil and gas producers by 40-60%. This loss of cash flows and market capitalization would be accompanied by a deterioration of the credit quality of these fossil fuel companies and a corresponding increase in credit risk for their bankers.

Leading global financial institutions have acknowledged that climate change poses a range of reputational, physical, regulatory, and customer risks. According to a 2013 survey by CDP, 54% of companies in the sector reported that climate change posed a significant reputational risk, 40% anticipated risks from climate change-induced weather extremes, and 35% saw risks from regulatory responses to climate change (see table 1). A majority of banks also assessed that climate change created opportunities to improve bank reputations and respond to changes in consumer behavior.
Climate change has begun to dramatically shift the landscape of risk and opportunity for the banking sector. To safeguard shareholder value, banks must take a strategic approach to measuring and managing their exposure to climate risk. Although climate change also presents business opportunities, banks with financing exposure to corporate clients in carbon-intensive sectors such as coal, oil, gas, and electric power face especially urgent risks, which call for comprehensive climate risk management strategies.

Finally, climate change not only poses risks to investors but also has serious implications for global society. A potential runaway climate change scenario would threaten the livelihoods and safety of communities around the world, and would disproportionately harm people in the world’s poorest countries. Extreme climate change is also likely to disrupt the global economy and pose other systemic social risks. Therefore, it is imperative that financial institutions address their exposure to climate risk in a transparent and comprehensive manner.
Bank of America is Highly Exposed to Climate Risk

Through Bank of America’s environmental finance commitments, it has demonstrated that it is proactively scaling-up financing for low-carbon and environmentally friendly business opportunities. However, as the last section of this memo highlighted, climate change creates both opportunities and risks for banks. Through its corporate lending and underwriting businesses, Bank of America remains highly exposed to both reputational and financial risks from carbon-intensive clients in the fossil fuel and electric power sectors.

In its response to the Carbon Disclosure Project’s 2014 survey, Bank of America acknowledged that it faced significant reputational risks from its banking relationships with clients in carbon-intensive industries:

“As one of the world’s largest financial institutions, protecting our corporate reputation among our customers, shareholders, as well as governments and NGOs, is of vital importance to maintaining our brand value. As societal concern about climate change has grown, there has become an increasing awareness among a range of stakeholders of the role the financial services sector can and should have in promoting climate change mitigation through its financing activities. The transition to a low-carbon economy will take decades, and for a period of time economies will continue to rely on a significant, though decreasing, volume of carbon-sourced energy. Some of our clients will necessarily be in carbon intensive industries, and reputational risk could arise if we do not continue to balance carbon reliant and low-carbon customers or sources of energy in our business mix. As a large company with a large operational carbon footprint, we face reputational risks if we are not voluntarily proactive in reducing our operational GHG emissions.”

Although Bank of America has acknowledged that relationships with carbon intensive corporate clients pose ongoing risks, compared to its peers, the bank remains highly exposed to these clients through its financing activities. To use the bank’s relationships with the coal industry as an example, in “Banking on Coal”, a 2013 report by BankTrack, researchers report that Bank of America’s cumulative bond and loan financing for the global coal mining industry between 2005 and 2013 was $9.1 billion (EUR 6.6 billion). This exposure to coal mining was the third largest among global banks behind only Citigroup and Morgan Stanley.

Within the United States, Bank of America was one of the largest financiers of the most coal-dependent electric power producers in the United States in 2013 with $1.8 billion in bond and loan transactions. The bank’s transactions with these coal-fired power companies has already exposed it to significant financial risks, such as through its participation in a January 2013 $22.6 billion loan transaction with Energy Future Holdings, a coal-intensive electric power producer that filed for bankruptcy in 2014.

Bank of America also financed two of the largest producers of mountaintop removal (MTR) coal in 2013, Arch Coal and Alpha Natural Resources. MTR, a form of surface mining that blasts off the tops of mountains to expose coal seams and buries neighboring valleys with the resulting rock and soil, causes severe impacts on mountain ecosystems and communities near mine sites. A 2011 survey of peer-reviewed studies on mountaintop removal mining published in Science concluded that the practice causes “pervasive and irreversible” environmental damage “that mitigation practices cannot successfully address.” The survey also concluded that public health studies of mountaintop removal mining found that it has a “high potential for human health impacts.” Bank of America’s financial ties to this controversial practice create significant reputational risks. The bank also faces financial risks from its ties to the largest producers of MTR coal, due to the poor financial condition of the U.S. coal industry. Bank of America served as a lender to a top producer of MTR coal, Patriot Coal through several loan transactions from 2007 until it filed for bankruptcy in 2012. Its remaining MTR clients, Arch Coal and Alpha Natural Resources, have seen their stock prices fall 96% and 98% over the past five years due to the sustained weakness of U.S. and global coal markets.

Although it is highly exposed to climate change risks through its coal mining and electric power lending and underwriting portfolios, Bank of America’s policies on climate change do not adequately address these risks. The
bank has a coal policy, which expresses support for greenhouse gas emissions reductions and technological developments such as carbon capture and storage. However, the policy lacks a concrete approach to measure, analyze, and address the bank’s exposure to carbon risks. Moreover, the policy commits to “phase out financing of companies whose predominant method of extracting coal is through mountain top removal,” but as none of the largest MTR producers meet this threshold, this commitment is insufficient to manage the reputational risk associated with the practice. In contrast to Bank of America, its industry peers, including JPMorgan Chase, Wells Fargo, Royal Bank of Scotland, PNC Financial, Societe Generale, UBS, and BNP Paribas have responded to MTR-related risks since 2013 by phasing out financing relationships with Alpha Natural Resources and Arch Coal.

Of additional concern is the bank’s exposure to carbon intensive clients in other sectors, which are not covered by this or other policies. Although coal combustion remains the single largest source of global energy-related greenhouse gas emissions, Bank of America’s corporate clients that produce and consume other fossil fuels such as oil and gas pose similar climate-related risks to the bank. As the Wall Street Journal reported in January 2014, major oil and gas producers have been ramping up spending on new exploration and production projects. For example, Chevron and Bank of America lending clients ExxonMobil and Shell spent a combined $120 billion on new production in 2013. Future carbon regulations would impact future cash flows from these immense investments in fossil fuel production capacity, exposing these companies and their creditors to significant financial risk.
**Bank of America’s Response to the Resolution Lacks Merit**

Bank of America’s statement of opposition to the resolution has key flaws:

**Bank of America’s existing climate risk disclosures are inadequate** – The bank’s response states that it “already provides publicly available information on the greenhouse gas emissions attributed to one of our most carbon-intensive business portfolios.” This statement refers to the bank’s Utility Portfolio Emissions disclosures, which estimate the greenhouse gas emissions intensity of its electric utility clients by extrapolating emissions data from a sample of approximately 75% of Bank of America’s client companies in this portfolio. These estimates provide an imprecise measure of the bank’s exposure to climate risk, since they are based on estimates rather than complete emissions data. Moreover, these disclosures cover only a single sector and do not assess carbon risk from other carbon-intensive business portfolios such as lending to coal, oil, and gas producers.

**The requested disclosures would not impose an unreasonable burden on the bank** – The bank suggests that the risk assessment requested by the resolution would require onerous assessments of a wide range of business lines including student loans. Indirect carbon emissions for a commercial bank are highly concentrated in certain lines of business such as commercial banking for clients in the fossil fuel industries. Therefore, due to their immaterial carbon footprints, business lines such as student loans would logically be excluded from the requested carbon emissions assessment and risk disclosure.

**Existing tools are sufficient to measure and report emissions in meaningful manner** – The bank’s response argues that the requested emissions assessment would yield meaningless results due to a lack of international consensus on a greenhouse gas emissions reporting framework. However, the Greenhouse Gas Protocol has already published emissions measurement tools for banks. In addition, Bank of America already reports on several material risks to its business operations such as interest rate risk and exposure to mortgage-backed securities-related credit losses without the benefit of globally accepted assessment frameworks for each risk. Therefore, the requested disclosures are well within the capacity of the bank to disclose and assess in a meaningful and comprehensible manner. Shareholders should not have to wait until a harmonized global framework for measuring climate risk is finalized, especially since the climate risks themselves will not wait and have already begun to manifest in capital markets. Given the magnitude of the risks climate change poses for its shareholders, Bank of America must lead the way in measuring, assessing, and responding to these risks, rather than waiting for an industry-wide consensus before doing so.

**Conclusion**

Although Bank of America has made commendable efforts to scale up its green financing, it has failed to balance the pursuit of these climate-related business opportunities with a rigorous and transparent approach to addressing climate-related risks from financing carbon-intensive clients. As research from HSBC, Carbon Tracker, and Bank of America’s own disclosures acknowledge, the bank’s effectiveness at managing these risks has significant implications for long-term shareholder value. Therefore, the disclosures requested by this resolution would provide critical information to address shareholder concerns about Bank of America’s management of the business risks associated with climate change.
Appendix: Copy of Resolution

PROPOSAL 5: CLIMATE CHANGE REPORT
The Sisters of the Holy Names of Jesus and Mary, U.S.-Ontario Province, PO Box 398, Marylhurst, OR 97036 and various co-proponents (we will provide the names and addresses of the co-proponents upon written or oral request to the Corporate Secretary) have advised us that they intend to introduce the following resolution:

WHEREAS:
Bank of America is a top financier of companies in greenhouse gas emissions-intensive industries such as coal mining, oil and gas production, and fossil fuel-based electric power.

Banks contribute to climate change through their financed emissions, which are the emissions induced by a bank’s loans to and investments in companies that emit greenhouse gases. A bank’s financed emissions typically dwarf its other climate impacts and expose it to reputational and financial risks. To measure their financed emissions, banks have access to accounting tools developed by the Greenhouse Gas Protocol, a partnership between the World Resources Institute and the World Business Council for Sustainable Development (http://bit.ly/UxdrSh).

The Carbon Tracker Initiative has found that the mispricing of climate risk from the fossil fuel reserves of oil, gas, and coal producers exposes financial institutions that invest in and lend to these companies to significant financial risks (http://bit.ly/1rUGy2d). Banks that finance carbon-intensive electric utilities also face risks from anticipated regulation of greenhouse gas emissions and the declining costs of renewable power relative to coal.

Bank of America has emphasized the reputational risks it faces from the climate impacts of its financing activities. In its 2014 response to the Carbon Disclosure Project, the bank states: “As societal concern about climate change has grown, there has become an increasing awareness among a range of stakeholders of the role the financial services sector can and should have in promoting climate change mitigation through its financing activities… Some of our clients will necessarily be in carbon intensive industries, and reputational risk could arise if we are not developing the appropriate balance of carbon-reliant and low-carbon customers or sources of energy in our business mix.”

Bank of America currently reports an estimate of its overall exposure to carbon emissions from its financing relationships with electric utilities. This reporting, though welcome, does not address emissions from the bank’s clients in other industries. These existing disclosures also do not provide shareholders with a detailed and comprehensive assessment of the bank’s exposure to financial and reputational risks from relationships with clients in carbon-intensive industries.

RESOLVED:
Given the broader societal implications of climate change, shareowners request that the Board of Directors report to shareholders by September 2015, at reasonable cost and omitting proprietary information, Bank of America’s assessment of the greenhouse gas emissions resulting from its financing portfolio and its exposure to climate change risk in its lending, investing, and financing activities.
Endnotes


20 Transaction data sourced from Bloomberg terminal.


http://www.sec.gov/Archives/edgar/data/70858/000119312515106302/d825862ddef14a.htm