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American Bankers Association
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Submitted Electronically

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

RE: Request For Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market (MSRB 2021-17)

Dear Mr. Smith,

The American Bankers Association[1] ("ABA") appreciates the opportunity to provide feedback on the *Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market* ("the Request") published for comment by the Municipal Securities Rulemaking Board ("Board" or "MSRB"). The Request is intended to obtain input from market participants on ESG trends in the municipal securities market and to help inform the MSRB's mandate of protecting investors, municipal issuers, and the public interest by promoting a fair, efficient and transparent municipal market. The Board is specifically seeking information concerning the municipal securities market as it relates to: 1). The disclosure of information regarding ESG-related risk factors and ESG-related practices; and 2). The labeling and marketing of municipal securities with ESG designations. Accordingly, our comments below will be of considerable interest to the MSRB.

ABA and its members understand that broader environmental policy and goals, and more specifically, appropriate disclosures from all business sectors, have implications for all municipal market participants. Businesses and providers of capital need to identify and assess the financial impacts of potential climate risks in order to manage the global challenge of climate change. ABA members are lenders, underwriters, servicers, investors, and asset management firms that

[1] The American Bankers Association is the voice of the nation's $23.7 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $19.7 trillion in deposits, and extend more than $11.2 trillion in loans. Learn more at www.aba.com.

gather, assess, and evaluate climate risk-related information to make decisions for their investors and other stakeholders. Our members are also key providers of capital in their specific communities and lending regions in an economy that is focused to reduce its dependency on carbon-based energy. Thus, we welcome the opportunity to engage on this important topic on behalf of our members.

ABA has developed the following principles to guide our advocacy on climate related financial issues:

- Banks should be free to lend to, invest in, and generally do business with any entity or activity that is legal, without government interference.
- Prudential regulation of banks should not be a substitute or proxy for efforts to carry out broader social policy or to regulate specific businesses and industries.
- Prudential regulations should support orderly transitions in local economies and allow banks to finance the new technologies necessary for a lower-carbon economy.
- Regulation and supervisory expectations must be plausible, market-based and appropriately scaled to bank capabilities and the economic realities of the communities they serve.
- Capital and liquidity requirements should not be tied to regulatorily-driven scenario analysis or climate related financial stress testing, which are still in early developmental stages.
- Any disclosure requirements should be focused on what is necessary to inform business and risk management decisions.
- US financial regulators must work together closely, and with international bodies, to ensure consistent definitions, standards and avoid conflicting or overlapping requirements.

We believe these principles are consistent with the Securities and Exchange Commission's ("SEC" or "Commission") current efforts and should guide the Commission as they continue to consider regulating disclosures related to climate-related financial risks. With that in mind, we note that MSRB's Request raises concerns that may unnecessarily impede the Commission's ongoing efforts, and current initiatives, as it relates to disclosure requirements. ABA supports the

Commission's pursuit of a deliberate and sensible climate risk disclosure regime, which contributes to effective climate risk mitigation and capital allocation throughout the broader economy. We believe that information about climate-related financial risks will allow market participants to more readily assess, price, and manage risk and allocate capital accordingly.

I. On the disclosure of information regarding ESG-related risk factors and ESG-related practices

a. The MSRB Must Adhere to Its Mandate and Focus on the Transparency of Disclosures

MSRB's public statements, and expressed interest, in the issues of ESG-related disclosures does not align with its mandate.[2] While the MSRB has taken steps to add certain ESG indicators to the EMMA system, we believe that the reliability of environmental metrics will be challenging in the face of unestablished principles and guidelines globally. Further, the emerging nature of environmental risk management means that reliable quantitative measurements of relevant metrics may not be possible for many years. Therefore, market participants need additional collaboration and engagement with the Commission and other financial regulators to address climate and other environmental metrics.

b. A Flexible Approach to Disclosure Should be Sought, Weighing the Needs of Various Stakeholders

ABA supports a flexible, principles-based approach in setting ESG disclosure standards, which also includes climate-related financial risk disclosure. Future regulation will need to be flexible to reflect the differences in the circumstances and complexities of financial institutions, participants in the municipal market, and their respective business models. In fact, banks of all sizes are currently engaged in a variety of activities that, in turn, present a disparity of risk

[2] MSRB's mission "protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country." There appears to be an inferential leap between the interest the MSRB expresses in the materiality of disclosures and jumping ahead of the SEC in this instance.

profiles. Take into account the challenges and uncertainties with data, definitions, and the opaque systems and expertise of climate-related financial risks for example. It is imperative that cost-effective measures are developed for institutions of all sizes to provide meaningful information for investors. With that said, we encourage regulatory agencies to leverage the work done on existing ESG disclosure frameworks that target the disclosure of climate-related financial risk, is so long as it is ultimately sufficient for investor protection. In the long run, market-wide climate-related financial disclosure will be expected to pivot quickly.

II. On the labeling and marketing of municipal securities with ESG designations

a. The Identification of Climate Designations will Evolve

Financial institutions have been making headway for several years as it relates to making significant investments in the areas of systems, modeling, data collection, training, and staffing to assess their climate-related risks and needs of their clients. As MSRB is aware, the business environment is constantly evolving and banks have adapted to, and managed, the changes of an evolving market-base and consumer preferences. Historically speaking, climate-related financial risks have been rooted into bank risk management practices and naturally appear through the processes of dynamic market conditions, economic and counterparty data that overwhelmingly contribute to strong risk management. Ultimately, we believe banks of all sizes will continue to adhere to traditional financial and credit risk tolerances and practices related to their balance sheets to effectively manage their risks.

However, the complete understanding of financial "materiality" can and will differ, and in many respects, conflict with those of investors and preparers of information as portfolio allocations and investment decisions are determined by nonfinancial (ESG-related) factors.[3] For example, certain metrics or designations may not necessarily be considered financially material to the preparer, but would indeed be critical to an investor. Ongoing engagement with industry

[3] ESG-related investment funds often have "yes/no" investment criteria related to board membership or involvement in activities considered "controversial". Such metrics may not be considered financially material to the preparer, but would be critical to specific investors.

analysts, third-party data providers, and relevant industry regulators is important for the future of this important issue. Again, we believe that priorities for investors as it relates to ESG can and will evolve over time. Thus, ABA recommends the Commission and other financial regulators work to address how preparers consider materiality in an ever changing environment.[4]

Thank you for your consideration of our views and recommendations. We hope that our comments are helpful in furthering the development of the Board in this area, and we stand ready to engage further with the MSRB and with municipal stakeholders.

Sincerely,

Justin M. Underwood

[4] Without relevant coordination, contradictory or inconsistent policies could be issued that impact the decision making information for investors.