

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG): BANKERS' PERSPECTIVES

What Is ESG?

“ESG” is a concept which stands for “environmental, social, and governance.” In very broad terms, it refers to considerations of sustainability-related risks and opportunities. It may include social considerations, such as equity, diversity and inclusion, as well as environmental factors such as the assessment and management of climate-related risks. Businesses in various industries have adopted ESG frameworks, driven in part by market expectations from customers, investors and employees.

How Did ESG Get Connected To Banking?

While the concept of ESG has been around for a while and is not limited to any particular type of business or industry, the “E” component has more recently been a hot topic in banking. This is due, in large part, to the Executive Order on Climate-Related Financial Risk, which was issued by the White House on May 20, 2021. The executive order indicates that it is the policy of the Biden Administration to advance disclosures of climate-related financial risk and mitigate such risk.

General Impact of Executive Order

Executive orders provide directives to executive agencies. In relevant part, the Executive Order on Climate-Related Financial Risk directs federal bank regulators to issue a report to the President on any efforts they are taking to integrate consideration of climate-related financial risk in their policies and programs. In other words, it directs the Federal Reserve, OCC, and FDIC to incorporate the consideration of climate-related risks when assessing banks’ safety and soundness.

Response Of Federal Regulators

In response, the OCC, FDIC and Federal Reserve have all issued draft principles for banks with more than \$100 billion in total consolidated assets. Just this week, the Federal Reserve Board launched its pilot climate scenario analysis exercise, which is being completed by the six largest U.S. Banks to gather information about climate risk management practices.

In other words, the largest U.S. banks will be the first to deal with climate related safety and soundness guidance in banking. They may challenge federal regulators during examinations or by engaging in litigation. We will be monitoring the federal regulators and responses from the big banks.

Are all Banks Required To Adopt Climate Related Risk Principles?

No. Right now, this is essentially the regulatory agenda of the current administration. There is no law or regulation requiring any bank to incorporate climate-related financial risks into their risk management frameworks. Additionally, the “principles” released by the federal regulators are inapplicable to North Dakota banks and need not be considered. Therefore, as of the present date, there is no law, rule, or regulation applicable to North Dakota banks regarding ESG.

Conclusion

North Dakota banks have always been and always will be supportive of North Dakota principles and industries. Our banks are comprised of generations of individuals and families raised in North Dakota. We are undeniably committed to the values and success of North Dakota, and are proud to serve the communities, individuals, and industries of the state. Our banks are, and have historically been, critical to the success of agriculture and every other industry in North Dakota.

The greatest risk to North Dakota Banks are the costs associated with regulatory compliance and litigation arising from these regulations, whether founded or unfounded.

Right now, there are no laws or regulations requiring North Dakota banks to incorporate ESG. North Dakota banks are not prohibited from doing business with certain individuals or industries, nor are they forced to do business with any particular individual or industry. We remain committed, as we have for generations, to the people, the principles, and the industries that make North Dakota strong.