Q&A

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Capital as the catalyst to a sustainable global economy

What are the main actions Bank of America has taken at the global and EU levels to support the green transition that align to goals of the Paris Climate Accord and accelerate the transition to a sustainable economy? How do those strategies support your net zero strategy for your own operations and helping your clients reach their sustainability goals?

As a leader in sustainable finance globally, our focus is to ensure we are a leading advocate for positive environmental and societal change – and we do that through how we utilize our balance sheet, people and relationships.

A key role we play is matching capital with opportunity to help facilitate the transition to a sustainable, global economy. Bank of America has been deploying capital to support low-carbon solutions on behalf of clients since 2007. To date we've directed more than $200 billion to these efforts and last year set a $1.5 trillion sustainable finance goal to reach by 2030 to help advance the United Nations Sustainable Development Goals (SDGs), $1 trillion of which is dedicated to environmental transition. This goal applies to every aspect of lending, investing, capital raising, and vendor management, and supports clients across sectors.

Our commitment is also core to how we manage our own operations. We were the first U.S. bank to announce a Scope 1 & 2 greenhouse gas emissions reduction goal for our own operations 16-years-ago, and in 2019 achieved carbon neutrality, a year ahead of schedule. We are now working toward a pledge to achieve net-zero greenhouse gas emissions before 2050 in financing activities, operations and supply chain. We are committed to begin to disclose financed emissions no later than 2023.

We partner with a number of organizations aligned with our focus on helping to transform how sectors measure, report and maintain data in this area. We helped launch the Net-Zero Banking Alliance, part of the Glasgow Financial Alliance for Net Zero, which is working to drive consistency in how banks and the financial sector as a whole approach net zero. As a global member of PCAF (Rocky Mountain Institute Center for Climate Aligned Finance and Partnership for Carbon Accounting Financials) and in collaboration with other financial institutions, Bank of America helped create the Global GHG Accounting and Reporting Standard for the Financial Industry, providing a consistent methodology to assess and disclose emissions associated with financing activities.

At Bank of America, we embrace our dual responsibility to drive both profits and purpose, which we deliver on by using our financing as a catalyst to unlock and help mobilize greater capital flows toward advancing a sustainable economy.

There have been issues raised with ESG reporting standards, the inconsistencies at the global level as well as how to solve for these issues. What is Bank of America doing to address this?

A standardised framework would enable industries and sectors who invest significant resources into their reporting, to compare the same information like-for-like and learn from best practices. It will also enable banks to be the conduit to more efficient capital markets, rather than solely being the provider of capital itself.

Our objective is to have a single global reporting standard for non-financial ESG metrics, including climate related metrics. It is encouraging to see this happening through the work our CEO Brian Moynihan is undertaking through his role as head of World Economic Forum's International Business Council. Working with business leaders across the globe and the accounting firms Deloitte, EY, KPMG and

PwC, the WEF IBC developed a set of Stakeholder Capitalism Metrics (SCM) aligned to the SDGs. These metrics create a consistent way of measuring companies' long-term value, across industries which in turn, helps direct investment toward high performers and align capital to progress on the SDGs. To date, 150 global corporations have agreed to implement reporting on the SCMs. Bank of America is one of those companies, and we published select SCMs in our 2020 Annual Report for the first time. We also support the work of the IFRS Foundation and newly established International Sustainability Standards Board (ISSB), and other work to converge standards.

At Bank of America, we view reporting frameworks as an opportunity to identify ways to improve how we support our employees, serve our clients, perform for our investors, and give back to our communities. We have been publishing climate data for nearly 20 years and continue to expand our disclosure. In addition to publicly disclosed information in our Annual Report/Form 10-K, Environmental and Social Risk Policy (ESRP) Framework, Human Capital Management Report, reporting through the GRI and CDP, in 2020 we issued our first Task Force on Climate-related Disclosures (TCFD) report and Sustainability Accounting Standards Board (SASB) report.

Our activities are guided by our most senior leaders, including through our Global ESG Committee and Sustainable Markets Committee, chaired by Vice Chairman Paul Donofrio. Recognizing EMEA's leadership role in responding to ESG issues and bringing green finance into the mainstream, in 2020 we launched an EMEA ESG Strategic Council, which I am pleased to Chair. The Council is comprised of a broad cross-section of regional and global leaders overseeing and coordinating our ESG activities in the region, across business lines, risk, regulatory deliverables and our own portfolio of initiatives to deploy capital and contribute to our stated sustainability goals.

We work diligently to be transparent and share the progress we're making. We also recognize that this is a long-term journey where all of us have a lot to learn.

What would be realistic ambitions for the financial sector regarding emerging ESG challenges (biodiversity, circular economy, social, ...)?

There is a significant gap between the capital that must be applied to global challenges like climate change, and the amount being deployed today. The financial sector has a key role to mobilize players across the entire financial system to increase the flow of capital.

One example is His Royal Highness The Prince of Wales' Sustainable Markets Initiative (SMI), of which our CEO is Co-Chair, which is working to establish mandates to drive market development in areas like sustainable aviation fuel, where innovation and new technology is needed to help scale a new market.

For companies and governments around the world to reach net-zero, new technologies to reduce carbon across the supply and value chain will be essential. Financing new technology and innovation is a core component of our sustainable finance strategy. We are engaging with our client base – including energy, power and other high-emitting sectors – to provide expertise, innovative solutions and unlock capital and to help them accelerate the environmental transition. We've also joined a number of coalitions focused on mobilizing capital to support new technology and innovation, including Breakthrough Energy Catalyst, the First Movers' Coalition, and Clean Skies for Tomorrow coalition, both created by the WEF.

How are banks managing sustainability risks? What are the lessons to be drawn from the recent EU stress-tests? What is the contribution of the bank regulatory framework to addressing sustainability risk? Are banks' levels of regulatory capital sufficient? What is being done to address the concerning points (e.g., physical risk underestimation, difficulties to approach the very long term, inconsistencies in portfolio orientation, ...) highlighted on this occasion?

As a financial institution, it is critical we manage and mitigate risk related to climate change. This includes physical risks, transition risks—and opportunities—that will impact communities, the markets, consumer preferences, and regulations. The management requires coordinated governance, a strong risk culture, and well-developed processes to identify, measure, monitor and control risks.

Managing climate-related risks is woven into risk discussions with our Board of Directors, Management team and lines-of-business. We have also established a Global Climate Risk Executive and Climate Risk team within our Global Risk organization, responsible for establishing a rigorous risk management program that identifies, quantifies, monitors and manages climate risk with a feedback loop to the businesses to improve practices. Our approach to climate risk is outlined in our ESRP Framework and TCFD Report.

As climate risk is a new risk type to the banking industry, our Climate Risk team partners closely with all lines-of-business to build education and awareness. We need everyone to have a broad understanding of what climate risk means for the bank as a whole, as well as a deeper understanding of how it impacts their business line or control function. To this end, we have rolled out multiple learning resources online and organized training and awareness sessions across our three lines of defense.

Through our risk identification process, climate and other risks are identified, prioritized and evaluated to determine estimated severity and likelihood of occurrence. We are focused on building our risk management and measurement capabilities to most effectively assess risks for potential impacts and incorporated into the design of macroeconomic scenarios to generate loss forecasts and assess how climate-related impacts could affect us and our clients. To achieve this we are developing new climate risk data sets and models.

In order to effectively manage and mitigate climate risk, banks need to treat climate risk as core to their business model, helping clients meet their own net-zero commitments and driving a just transition to a low-carbon future.