

## **SunTrust Banks Memo**

**SUBJECT:** Grounds for a Yes vote on the SunTrust Banks shareholder resolution requesting a sustainability report including strategies to address climate change

**DATE:** March 31, 2010

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**RESOLVED:** Shareholders request that the Board of Directors prepare a sustainability report describing strategies to address the environmental and social impacts of SunTrust's business, including strategies to address climate change. The report, prepared at reasonable cost and omitting proprietary information, should be published within six months of SunTrust's 2010 annual meeting.

**SUPPORTING STATEMENT:** *The report should include the company's definition of sustainability and a company-wide review of policies, practices, and metrics related to long-term social and environmental sustainability. Lending practices relating to social and environmental issues should be reviewed along with the proxy voting policies and procedures on these issues, including a comparison of SunTrust's proxy voting record on these issues with other large institutional investors such as the largest state pension funds. This review should examine procedures for exposing any potential conflicts of interest related to proxy votes.*

*We recommend SunTrust use the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines to prepare the report. GRI ([www.globalreporting.org](http://www.globalreporting.org)) is an international organization developed with representatives from the business, environmental, human rights and labor communities. The Guidelines provide guidance on report content, including performance on environmental, labor, human rights, and product responsibility issues. The GRI Guidelines provide a flexible reporting system that allows the omission of content not relevant to SunTrust.*

*Examples of topics that should be reviewed in the report include: ways to reduce the use of energy and natural resources by SunTrust facilities and employees, governance practices related to climate change and sustainability, and how SunTrust encourages customers to act in environmentally responsible ways.*

### **Rationale for a Yes Vote:**

1. SunTrust does not adequately disclose its sustainability-related risks, opportunities, policies and practices;
2. Sustainability reporting is an important element of business success;
3. SunTrust lags far behind its peers on sustainability policies, practices and disclosure.

## **1. SunTrust does not adequately disclose its sustainability-related risks, opportunities, policies and practices.**

SunTrust's current disclosure practices make it impossible for shareholders to assess the bank's exposure to sustainability-related risks – such as the following risks related to climate change:

- Regulatory risk – Does SunTrust lend to customers who are building fossil fuel-based power plants or who otherwise have high emissions of greenhouse gases? If so, is there a process in place to manage the risks of a price being assigned to carbon emissions? Six leading banks have signed onto the Carbon Principles, which includes a due diligence process to help manage these risks.<sup>1</sup>
- Reputational risk – Does SunTrust lend to companies who are viewed by the public as causing harm to the environment? Could this damage their brand image in a fiercely competitive marketplace? As they fall behind competitors on disclosure of environmental, social and governance (ESG) issues, could SunTrust managers be viewed as out of touch with important societal trends and business risks? How might this affect investor confidence and SunTrust's ability to attract and retain employees, given that corporate social responsibility improves employee recruitment, motivation, and retention?<sup>2</sup>
- Competitive risk – Does SunTrust have a plan to maintain competitiveness during the likely transition to a low-carbon economy? Leading banks and a number of SunTrust's competitors are offering green banking products and developing expertise in lending to renewable energy companies, as described below.
- Legal risk – As one corporate attorney noted, shareholder litigation against officers and directors who fail to respond to climate change may be on the horizon: “Expectations flowing from the board's duty of care—including its obligations to inquire, to be informed and to employ adequate internal monitoring mechanisms—may create new consequences for boards and modify the standards by which their conduct is judged.”<sup>3</sup>

### **SunTrust Disclosure**

- Web Site: We were not able to find information about sustainability, environmental issues or climate change on the SunTrust web site.
- 2009 10-K: We found only one mention of sustainability or environmental issues in SunTrust's 2009 10-K:  
*“Large scale natural disasters may significantly affect loan portfolios by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change.” (p.11)*
- Carbon Disclosure Project (CDP): SunTrust received a score of 29 on their 2009 CDP survey response. The highest score in the financial sector was 92. SunTrust's CDP response reveals that management is beginning to think about sustainability and climate change. However, management is not yet disclosing the risks or opportunities.

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<sup>1</sup> <http://www.carbonprinciples.org/>

<sup>2</sup> See “The Importance of Being Ethical” (<http://www.inc.com/articles/2000/11/14278.html>); Brown Flynn, Resource Center > Trends (<http://www.brownyflynn.com/RESOURCECENTER/Trends/tabid/224/Default.aspx>).

<sup>3</sup> Smith, Jeffrey A. and Mathew Morreale (Cravath, Swaine & Moore LLC), “Boardroom Climate Change,” *New York Law Journal*, Vol. 238, no. 10, July 16, 2007.

*CDP 3.1 Is your company exposed to other risks as a result of climate change? We consider our company to be exposed to other risks. Globally, social responsibility -- and specifically environmental sustainability have gained substantial traction recently. As such, we believe that there is some probability SunTrust's customers, shareholders, employees and communities in which we serve will take an active interest in SunTrust's commitment to sustainability. SunTrust has established a team to focus on the bank's current practices and programs and to develop and implement an employee awareness campaign.*

Investors need to know what risks and opportunities the team mentioned above is addressing and what approach they are taking. Issuing a sustainability report is a good form of disclosure because it generally facilitates investors' comparison of companies by providing a common framework and metrics (for GRI-based reports).

*CDP 4.1 Regulatory Opportunities: Do regulatory requirements on climate change present opportunities for your company? We don't know the answer to this question. Regulatory requirements could present enhanced business opportunities for SunTrust. These opportunities could come in the form of borrowing and investment needs from existing customers or from our ability to attract new customers.*

Useful details are notably lacking from the answer above. Meanwhile, SunTrust's peer banks disclose specific opportunities. For example, Keybank's web site states: "KeyBanc Capital Markets was the first domestic lender in the United States to lead-arrange a turbine/construction wind financing. KBCM combined its expertise in alternative energy with its extensive experience in the legacy utility business to deliver valuable advice, knowledge and ideas to complement Everpower's knowhow in the development of wind-power projects." Investors would benefit from knowing whether SunTrust is seizing business opportunities related to climate change.

## **2. Sustainability reporting is an important element of business success.**

A key purpose of publishing a sustainability report is to inform investors, in a holistic way, about significant risks faced by SunTrust – and how the bank is managing these risks, including emerging risks that are not covered in the 10-K. Compared to the 10-K, a sustainability report typically goes into more detail about items such as goals companies set to reduce risks and plans to meet the goals.

The recent banking crisis underscores the need for financial institutions to do a much better job disclosing and actively managing risks. For example, socially responsible investors repeatedly asked banks to disclose and reduce risks related to predatory lending in the years leading up to the mortgage crisis.

76 percent of executives recently polled by McKinsey & Company "say sustainability contributes positively to shareholder value in the long term, and 50 percent see short-term value creation."<sup>4</sup>

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<sup>4</sup> McKinsey Quarterly, March, 2010

[https://www.mckinseyquarterly.com/Energy\\_Resources\\_Materials/Strategy\\_Analysis/How\\_companies\\_manage\\_sustainability\\_McKinsey\\_Global\\_Survey\\_results\\_2558](https://www.mckinseyquarterly.com/Energy_Resources_Materials/Strategy_Analysis/How_companies_manage_sustainability_McKinsey_Global_Survey_results_2558)

A recent meta study by Mercer found 10 out of 16 studies showed a positive impact on the financial performance of investments associated with “taking ESG issues into account.” Four of the 16 studies showed a neutral impact, and 2 showed a “neutral to negative” impact on performance.<sup>5</sup>

A Goldman Sachs study found that companies that are considered leaders in ESG policies outperform their peers in terms of their stock value by some 25 percent.<sup>6</sup>

According to a 2008 KPMG report on sustainability reporting, of the 250 Global Fortune companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005. In addition to these large companies, many medium sized and smaller companies issue reports, such as the mid-sized banks mentioned below.

A Ceres report on climate change and the banking sector cautions that “... a carbon filled atmosphere is joining capital and labor as a new resource constraint” and suggests that equity valuations will be shaped by new climate regulations, physical impacts to facilities, and shifts in consumer demand for “climate-friendly” products.<sup>7</sup> Moreover, banks themselves are increasingly recognizing such risks to their loan portfolios.<sup>8</sup>

Leading banks recognize that disclosing and quantifying climate risks can give them a competitive edge and help to protect their brands. For instance, Citigroup believes that a proactive climate policy carries five business advantages, including: reduced costs, enhanced brand reputation, and expanded market potential for new services.<sup>9</sup> Similarly, over the next four years, HSBC “will make responding to climate change central to [its] business operations and at the heart of the way [it] work with [its] clients across the world.”<sup>10</sup>

In addition, climate change is exacerbating the banks’ reputational risks associated with lending to extractive and energy-intensive industries, which are coming under increasing scrutiny for their environmental impacts.<sup>11</sup> A 2005 study found that up to 50% of brand value might be at risk from climate change.<sup>12</sup> Barclays, for one, has recognized the connection between sustainable practices and reputation: Barclays’ Environmental and Social Impact Assessment Policy (designed to ensure that “lending proposals are thoroughly assessed to identify any environmental and social risks”) is overseen by its *Brand and Reputation* Committee, a subcommittee of the

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<sup>5</sup> Environmental Finance, “ESG Can Boost Financial Performance – Mercer,” Dec- Jan 2010.

<sup>6</sup> Goldman Sachs, “GS SUSTAIN Focus List,” 2007 ([http://www.unglobalcompact.org/docs/summit2007/g\\_s\\_esg\\_embargoed\\_until030707pdf.pdf](http://www.unglobalcompact.org/docs/summit2007/g_s_esg_embargoed_until030707pdf.pdf)).

<sup>7</sup> Cogan, Douglas G., “Corporate Governance and Climate Change: The Banking Sector,” Ceres Report, January 2008, p. 12-13 (<http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=269>).

<sup>8</sup> For instance, ABN AMRO’s 2006 Sustainability Report recognizes that, “To be effective, risk management needs to minimize the overall carbon footprint of the project-financing portfolio and to work in the context of the newly emerging carbon markets.” *See Ibid*, p. 11-13.

<sup>9</sup> Citigroup, “Climatic Consequences: Investment Implications of a Changing Climate,” January 19, 2006, *available at* <http://www.pewclimate.org/docUploads/CIR%20-%20Climatic%20consequences%20Jan.%202007.pdf>.

<sup>10</sup> News conference to announce the HSBC Climate Partnership, London, U.K., May 30, 2007.

<sup>11</sup> Cogan, Douglas G., “Corporate Governance and Climate Change: The Banking Sector,” Ceres Report, January 2008. *Also*, “Banks, Climate Change and the New Coal Rush,” Rainforest Action Network, October 2007.

<sup>12</sup> Carbon Trust, “Brand value at risk from climate change,” 2005.

Executive Committee.<sup>13</sup> We find inadequate evidence that SunTrust has taken sufficient steps to preserve its brand reputation in this regard.

### 3. SunTrust lags far behind its peers on sustainability policies, practices and disclosure.

According to the 2008 Roberts Environmental Center report on the financial sector, 90% of the global banks analyzed in the report were voluntarily reporting on sustainability issues and more than 50% produce extensive formal sustainability reports.<sup>14</sup>

Here is a sampling of SunTrust's direct competitors' and peers' sustainability practices:

- **Comerica's** (Market Cap \$5.7B) GRI-based sustainability report for 2009 states: "In 2008, we made sustainability a core commitment of our company."<sup>15</sup>
- **Regions Financial Corp** (Market Cap \$9.0B) has a sustainability report based on GRI guidelines as well as a separate social responsibility report.<sup>16</sup> Regions Financial Corp's geographical footprint overlaps with SunTrust, and the banks are of similar size in terms of the number of employees and market cap.<sup>17</sup>
- **KeyCorp** (Market Cap \$6.7B): KeyBank provides a series of web pages on environmental activities. The first page includes the following text: "Under the direction of Chief Executive Officer Henry Meyer, KeyBank is constantly pursuing business practices to help the environment. 'Several years ago we put in place environmentally responsible behaviors throughout the organization that produced winning results — for Key, its shareholders and the planet,' he says. 'Key is committed to building green and going green whenever possible.' Key's actions have customers and employees seeing green!"<sup>18</sup>
- **Capital One** (Market Cap \$19.4B) describes some of its environmental initiatives as follows:<sup>19</sup>
  - "In 2008, we established an Environmental Sustainability Office (ESO) to promote and coordinate corporate environmental sustainability activities.
  - The ESO reports into a member of our Executive Committee and reports corporate progress on sustainability efforts monthly. This team is specifically responsible for developing the environmental measurement systems, developing a greenhouse gas emissions reduction strategy and goals, as well as promoting and implementing environmental projects across the enterprise.
  - In addition, for the past several years our Executive Committee has sponsored an Environmental Council comprised of leaders across our enterprise. The Council has promoted associate awareness and action for many environmental causes.

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<sup>13</sup> Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 12-13 (<http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=269>).

<sup>14</sup> Roberts Environmental Center, "Banks, Insurance, and Diversified Financials Sectors Analysis 2008: A benchmarking tool for online sustainability reporting," October 20, 2008 (<http://www.roberts.cmc.edu/PSI/RedirecttoPDF/redirectBanks2008.asp>).

<sup>15</sup> <http://www.comerica.com/vgn-ext-templating/v/index.jsp?vgnextoid=abb06261630d6110VgnVCM1000001c21160aRCRD>

<sup>16</sup> [http://www.regions.com/about\\_regions/social\\_responsibility.rf](http://www.regions.com/about_regions/social_responsibility.rf)

<sup>17</sup> <http://finance.yahoo.com/q/pr?s=RF>

<sup>18</sup> <https://www.key.com/html/key-bank-environmental-commitment.html>

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[http://www.capitalone.com/about/corporatecitizenship/environment/governance.php?linkid=WWW\\_Z\\_Z\\_Z\\_ABTEENV\\_R1\\_02\\_T\\_ABTEENVGOV](http://www.capitalone.com/about/corporatecitizenship/environment/governance.php?linkid=WWW_Z_Z_Z_ABTEENV_R1_02_T_ABTEENVGOV)

- Reduce Emissions: In September 2009, Capital One set, and the EPA approved, a Greenhouse Gas (GHG) emissions reduction target of 10 percent over the next five years.”<sup>20</sup>
- **Other Banks:** According to a Ceres report issued in January of 2008 on the banking sector, growing numbers of U.S. and foreign banks are disclosing the following sustainability strategies:
  - *Implementing a general environmental program and risk assessment policy*, such as **Wells Fargo’s** 10-point environmental commitment initiated in 2005.<sup>21</sup>
  - *Increasing board oversight of the company’s climate-related initiatives*. For instance, **HSBC** has a far-reaching board-level climate governance structure: its General Management Board, which monitors the bank’s investments in emission-reducing projects and other carbon market opportunities, decided in 2004 to make HSBC the world’s first “carbon-neutral” bank. HSBC also has a board-level Corporate Responsibility Committee overseeing its sustainability policies.<sup>22</sup>
  - *Increasing management execution of climate policies*. For instance, in 2007, **Royal Bank of Canada (RBC)** added an Environmental Blueprint to its existing Carbon Risk Management Project, committing the bank to reduce its environmental footprint, give its clients environmental credit-risk policies, and offer new climate-focused products and services.<sup>23</sup>
  - *Adopting risk management for the power sector specifically*, such as The Carbon Principle’s Enhanced Diligence framework, adopted by: **Bank of America, Citi, Credit Suisse, JPMorganChase, Morgan Stanley,** and Wells Fargo
  - *Calculating and/or reducing carbon risk in loan portfolios*. For instance, Wells Fargo performed a GHG assessment of its three key lending portfolios (agriculture, primary energy production, and power generation), while RBC made a carbon risk profile of its lending portfolio and reviewed the potential physical impacts of climate change to business sectors and regions in North America. Similarly, Bank of America announced that it would reduce the GHG emissions associated with its utility corporate finance portfolio by 7% by 2009; to that end, it is shifting its portfolio mix toward customers with lower-CO2 profiles.<sup>24</sup>
  - *Setting internal greenhouse gas reduction targets for their operations*, such as by changing energy procurement policies in favor of renewable energy, adopting “green” building principles in real-estate management, disclosing and setting emissions reduction targets for their operations to achieve “carbon neutrality.” Disclosure of progress on energy use and similar indicators can demonstrate quality management to investors—and offer real savings.<sup>25</sup>
  - *Reporting on their financial support for alternative energy projects*, including direct financing and investments in renewable energy and “clean tech” market.

<sup>20</sup> <http://www.capitalone.com/about/corporate-citizenship/environmental-sustainability/progress/>

<sup>21</sup> See <https://www.wellsfargo.com/about/csr/ea/>

<sup>22</sup> Cogan, Douglas G., “Corporate Governance and Climate Change: The Banking Sector,” Ceres Report, January 2008, p. 16.

<sup>23</sup> Cogan, Douglas G., “Corporate Governance and Climate Change: The Banking Sector,” Ceres Report, January 2008, p. 16

<sup>24</sup> [http://newsroom.bankofamerica.com/index.php?s=press\\_releases&item=6985](http://newsroom.bankofamerica.com/index.php?s=press_releases&item=6985)

<sup>25</sup> Earthwatch Institute, the World Conservation Union, World Business Council for Sustainable Development and World Resources Institute, Ecosystem Challenges and Business Implication, 2006, [http://www.wbcsd.ch/DocRoot/Yfe91Zpuv9xjK8PThQmF/Business%20and%20Ecosystems\\_211106\\_final.pdf](http://www.wbcsd.ch/DocRoot/Yfe91Zpuv9xjK8PThQmF/Business%20and%20Ecosystems_211106_final.pdf).

- *Seizing on the opportunity to diversify their investment and retail product lines.* A recent United Nations Environmental Program-Finance Initiative (UNEP-FI) report found that rising concern about climate change, coupled with growing support for regulatory action, is driving a rapid expansion of green financial products: “most banks...consider climate change as the most important environmental issue they face. In response, carbon commodity products and services are developing at an extraordinary pace...The innovation displayed by the front-runners in carbon finance is based on their capacity to identify opportunities for carbon asset generation across all types of financing activities...”<sup>26</sup>

## **Conclusion**

At a time when banks are facing unprecedented public outrage about their role in the economic crisis and massive mismanagement of risk, SunTrust’s resistance to investor suggestions to address sustainability issues – in particular, climate change risks – represents a misguided response to a changing environment. Strong disclosure and transparency will help SunTrust protect shareholder value and minimize exposure to direct and indirect financial, regulatory, legal, reputational and competitive risks. SunTrust’s peers are taking ESG disclosure seriously, and SunTrust needs to do the same. Climate risk is particularly important to SunTrust due its extensive operations in Florida, a state that is highly vulnerable to the impacts of climate change such as more frequent and severe hurricanes and flooding related to sea level rise.

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<sup>26</sup> Green Financial Products and Services: Current Trends and Future Opportunities in North America, United Nations Environment Program-Financial Initiative, August 2007.