Conversation with Paul Donofrio

Paul Donofrio - Vice Chair, Bank of America

David Wright - President, EUROFI

David Wright

I have the pleasure of being with Paul Donofrio, who is the Vice Chair of Bank of America. We have spoken before and I am looking forward to hearing him tell us about the progress they have made in sustainable finance. He has been with Bank of America since 1999 and has held many key positions in the company, including Chief Financial Officer. Now you are leading Bank of America's work on sustainable finance, and that is what we are going to talk about.

I know that this is a big, big business and important business for you. When we spoke last time, you said you were optimistic about this framework and momentum building on sustainable finance. Has that momentum continued? Is it the same all over the world? I sometimes get the sense that there is a sort of push-back.

Paul Donofrio

Hello David, and hello everybody. It is great to be here. The short answer to that question is, 'Yes, we are still optimistic. We still see momentum.' Let us talk a little bit about why Bank of America is optimistic because the transition is creating opportunities for companies that are huge and hard for them to resist. We are optimistic because we can actually see that activity and momentum building among our clients. We all know that just about everything we produce, use and do puts greenhouse gases into the environment, and you do not have to believe that we are going to get there by 2050, but just trying to get there is probably going to have more impact on the economy than the Industrial Revolution.

It is a giant challenge, but we are focused on the huge opportunity it creates, and companies are focused on that as well. The largest companies in the world are all advancing towards transition plans. We can talk a little bit about that. The smaller companies are the key to those large companies achieving their goals, and they are going to reap the benefits as well. If you look at estimates from experts, they are all over the place, but McKinsey thinks we are going to have to spend $275 trillion or $9 trillion a year, which is almost double what we are spending in a normal year. You have to think about all the jobs, the innovation and the socio-economic progress that will come with a $275 trillion investment.

The important thing to remember is that, when the government invests that money, or when a company invests that money, it is just another company's revenue. The revenue growth opportunity for companies is huge

David Wright

Turning to Europe, Paul, if I may, the Commission has been clear about its objective to make it easier for business to deploy capital and resources towards sustainable projects. This is a big theme now and includes reducing burdens, simplifying the rules for the sustainability framework, less red tape and so forth. Are you seeing that? Are your clients telling you that it is getting easier, or are they saying to you, 'Hold on, Paul. It is getting more complicated'?

Paul Donofrio

I think our clients have certain things that they would like to see get done that are not getting done. Maybe I can check through a few of those that we think people need to focus more on and let me end with one item that I think would really accelerate the transition that we do not spend enough time talking about.

The first one is that we need more effective carbon markets, and particularly a reliable carbon price, so that everybody knows the true cost of fossil fuels and can better plan and invest.

We need to create demand signals for the scale-up of sustainable energy. This is what business is looking for.

We need governments and companies to put firm orders in for things like sustainable aviation fuel years down the road so that banks and the capital markets can use those firm orders to finance the development of manufacturing and supply.

We have done a great deal of good work around creating incentives for early-stage investment, but we need more of that. We need governments to do even more around nuclear fusion, carbon capture, green hydrogen and technologies that have not even been invented yet. If it is a climate emergency, we should be doubling down on that, and the Inflation Reduction Act (IRA) is a good start. There have been several things here in Europe, but more is needed. The banking industry certainly, and I think the private sector, would like to see some advancement in the way that multinational development banks operate so that their activities encourage the private sector to help finance the Global South.

Lastly, again, we have made progress here, but it is really important to have sustainability disclosures that are harmonised across all regions and countries, that focus on material issues and, most importantly, that are trustworthy.

There is one other thing that I want to talk about that I alluded to earlier and would really accelerate the transition. We need a better partnership between some of the key players in the economy, particularly in relation to the supply chains of large global companies. While we are working at that partnership, I want to suggest to everybody that the current focus on banks as a wedge to drive the transition is totally understandable, but probably overemphasised. While banks have a very important role to play, ultimately, it will not be banks that drive the clean energy transition. It will be the activities of companies, large and small, in every sector, as they realise the opportunity to grow revenues, gain market share and invest in new technologies.

It takes a partnership to help them do that; it takes a partnership of governments, non-profit organisations, financial institutions and large companies. We should be careful about too sharp a focus on any one of those elements. I would argue that it is far from certain that our current focus on banks will achieve the objective that we all share. I would offer as proof of that the current pushback that we are seeing in the United States and other regions around the world that you alluded to earlier, including right here in Europe. The more fundamental reason is that banks are just transmission mechanisms for the economic objectives of other economic players, namely governments, companies and consumers. Ultimately, by 'consumers', I mean voters in democratic societies.

As highly regulated entities, banks ultimately serve the public interest in each of the countries in which they operate, and what people want in one country versus another country, or even in one state versus another state in the same country, can vary greatly and change quickly. This is why it is hard for banks to be the wedge that some want us to be. I would argue that, the next time we are all feeling a little bit insecure about what we need to do and whether we are making enough progress, we should focus a little less on banks and financial institutions and a little more on developing market forces to drive and accelerate the transition. I would say the good news is that those forces already exist.

As I said earlier, the largest companies all have transition plans. The smaller companies are all in their supply chain. That connection between large companies and supply chain is where this partnership can really accelerate the transition because, if we focus on the supply chain, then it becomes a business imperative to develop and execute a transition plan. It becomes a business imperative.

David Wright

You talked about convergence of regulation and convergence of standards and so forth. Do you see that, or do you see dispersion?

Paul Donofrio

I definitely see that a lot of progress has been made on disclosures. I want to give a shout out to the International Sustainability Standards Board (ISSB) for all the work they have done. There are still regions and countries that want to develop their own, and it is not just about inefficiencies that companies experience because they have to report different things in different places. What is much more important is the fact that, if it is too different all over the place, people lose confidence in the disclosures. It is very important to have global interoperable sustainability standards. Again, I applaud the ISSB for playing its part in this.

David Wright

Do you want to add anything more on your own transitional plans here?

Paul Donofrio

Sure. For a long time, we had various internal and external documents that helped us advance towards a more secure, sustainable and affordable energy future. Those were important documents, but they were developed piecemeal by different parts of our company. A few years ago, we started to consolidate those documents, and then, this year, we have gone to a transition plan. The important thing here is that we develop our transition plan in the way we develop our strategic plan. In fact, we integrated it into the strategic planning process, and it was written by leaders in our line of business and in our support group like risk, HR and finance. It was not written by some silo in the centre. Because of the way that we did that, the value of doing it that way, but even the value of a transition plan, is the engagement and ownership it creates within the company.

Our leaders now own this plan. It is the plan of the people who run our lines of business and our support groups, and they are embedding it into the existing processes of the company. It is not like we are going to pick up this plan and then flick to page 37 and say, 'We should be following this thing.' What is valuable about this, again, is the creation of it, the engagement, the ownership, the reporting to each other and discussing it with the Board and creating that engagement and ownership across the whole company.

David Wright

Finally, Paul, I understand, if I am well informed, that your recently issued green bond was issued at around €1 billion. How are your clients using these types of bonds and sustainability themed bonds? Are they using them to advance their goals in sustainability and transition or do you think this is a market that will trundle along? Do you expect big growth here?

Paul Donofrio

Let me say two things about them. Firstly, you asked earlier about whether we see progress continuing. We can see it because we talk to our clients and we can see what they are doing, but it is hard for other people to see the progress. Most of what companies are doing is not finance with a green bond; most of what companies are doing is financing through their own operations, so it is hard to see the activity.

If you look at the issuance of sustainability themed bonds, you can use that issuance as a proxy for whether companies are doing more or doing less. If you just look at the year-on-year, for example, 20% of all bonds issued in Europe Middle East and Africa (EMEA) were sustainability themed bonds, and issuance was up 12% year-over-year. We are doing more, not less. In the US, activity is up 35% this year. People are worried that companies are not doing stuff. If you want to look at sustainability bonds as a proxy for their activity, it is up 35% in the US. That is not at 20% of all issuance, but the IRA is just getting started. That is one point I would make about the activity.

The second point I would make about these bonds is that it is interesting to hear people talk about them. They were not developed because companies needed them to finance the transition; they were developed because institutional investors wanted to own them in their portfolios. They want to own them because they think they are better investments. They want to own them because it is a regulatory requirement, and they want to support the transition. Unlike in some corners of finance, they are not needed by companies to finance the transition because companies can just as easily finance the transition with a normal bond or a normal loan or their own cash flow, which is how they normally finance a transition.

It is not that they are not important to companies. They are important signalling events that sustainability is important to the directors, the company and the employees. It is because they are important to companies, and because they are very important to our institutional clients, we have worked hard to be a leader here.

That bond is just one example. We have issued $15 billion for ourselves to deploy, but way more important than the $15 billion is the fact that we have raised well over $1 trillion of sustainable-linked bonds for corporations all around the world. We are a leader in the US in terms of financing renewable energy through tax equity. We have a $14 billion portfolio that is roughly equivalent to helping 16% of the wind and solar get financed in the US. The IRA has created huge demand for tax credits, and we are developing the capabilities to originate and distribute them, because there is so much supply that they are going to have to be distributed more broadly. We are working very hard with multinational development banks to help to finance the Global South. A lot more work needs to be done there. We are clearly a leader globally in that field, if not the leader in the US in terms of sustainability.

David Wright

Is the market bigger in the US for these bonds than in the European Union (EU)?

Paul Donofrio

The market is bigger in the EU, but it is growing faster in the US.

David Wright

Paul, it was a pleasure to be with you again. Thank you for your support of Eurofi over many years, which is greatly appreciated. We will have to take a stocktake in Warsaw and Copenhagen next year if you are available. I hope you are.

Paul Donofrio

I look forward to it.

David Wright

Thank you very much.