

D I V E S T L A

November 16, 2017

Councilmember Paul Krekorian
Councilmember Mike Bonin
Councilmember Paul Koretz
Councilmember Bob Blumenfield
Councilmember Mitch Englander

cc: Office of Finance

Dear Councilmembers,

We thank the Budget and Finance Committee and the Office of Finance for its leadership in creating a stronger RFP for the City's banking services. We are encouraged by the sections regarding socially responsible banking, including stronger efforts to enforce the Responsible Banking Ordinance, prohibit illegal banking practices, protect consumers from unethical behavior, and disqualify banks with below "Satisfactory" CRA ratings.

While the draft RFP has been significantly strengthened, there are some key issues that remain to be addressed. This includes a rating criteria that takes into account both positive contributions as well as socially and environmentally destructive investments and financing, including the continuing violation of the rights of Indigenous peoples. We urge the Committee and Finance to address these critical issues through our revisions to the RFP and the RBO.

In the proposed RFP, only positive social and environmental criteria are considered. This means that we would only hear about "the best of times" without independent or third party assessment(s) of those harmful and therefore, negative, social and/or environmental actions and investments undertaken by the bidder. The RFP must establish achievable benchmarks that can critically assess whether applicants only demonstrate a minimum threshold of assistance to the communities they serve. The spirit and letter of the RFP must hold all bidders to a level of corporate citizenship that befits the public trust. We ask that these assessments be made when granting the 20 percent allocation for social responsibility.

To address this discrepancy, Divest LA urges the City to adopt an Environmental, Social, and Governance (ESG) index for the RFP and RBO using a third-party rating agency. ESG are ethical standards which investors, companies and stakeholders use to assess and measure a corporation's socially responsible performance.

Various third-party companies provide reports which assess and measure a company's ESG performance over time. The use of ESG policies will help the City to pre-screen companies through a socially and environmentally conscious lens.

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Secondly, we ask the Committee and Finance to add important qualitative factors that may negatively impact a bank's 20 percent Social Responsibility scoring including, but not limited to: bank branch closures, lawsuits, settlements, violations of law including FINRA, SEC, or state financial regulation, and recent regulatory enforcement actions by federal or state agencies. These are current reporting requirements under the RFP, yet they are not officially weighted in the socially responsible section. Without being weighed, they hold no bearing for choosing a bidder. In addition, if a bidder undertakes fraudulent or illegal action, the City should have the right to terminate its relationship with that bank, with no penalty.

Thirdly, we urge the City to enforce a minimum Federal and State CRA rating of "Satisfactory" in the City's Responsible Banking Ordinance (RBO). This would require social and environmental accountability from bidders in both their commercial banking and investment banking services, the latter of which are not currently considered by the RFP. The RBO should apply the same ESG performance ranking and Social Responsibility assessment as presented in the RFP to a bidder's investment banking services, where applicable. All of these reporting requirements should impact the 20 percent weighting for social responsibility, as proposed in the RFP.

The City must reinforce its fiduciary duty by safeguarding its residents from "bad actors" and unethical financial institutions, and require institutions that do business with the city and hold public funds to adhere to appropriate standards. To this end, we also support Councilmember Nury Martinez' letter addressing the RFP and RBO with regards to banking practices.

We thank you for your continued leadership and commitment in choosing to bank with financial institutions that align with our City's values.

Sincerely,
Divest LA