

Comptroller of Public Accounts
List of Financial Companies that Boycott Energy Companies
Frequently Asked Questions

The information below is a list of frequently asked questions and answers relating to the methodology used in the creation and publication of this list and the implications of the list.

FAQ – General

1. Why is the Comptroller publishing this list?

The Comptroller is required by statute (Tex. Gov't Code sec. 809.051) to prepare and maintain a list of financial companies that *boycott* energy companies.

2. What kinds of companies are subject to the Comptroller's review under this law?

Texas law requires the Comptroller to create a list of "financial companies." The law defines "financial company" as a publicly traded financial services, banking, or investment company. Tex. Gov't Code sec. 809.001(4).

3. What does "boycott" mean?

Per Texas statute, "boycott energy company" means, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company:

- a. engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or
- b. does business with a company described by Paragraph (a). Tex. Gov't Code sec. 809.001(1).

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FAQ – List of Companies in Annex I

4. Can you summarize the process to identify the financial companies in Annex I? What were the Comptroller’s “initial criteria”?

The Comptroller initially identified 19 financial companies in Annex I based upon the following information:

- Global Industrial Classification System (GICS) and Bloomberg Industrial Classification System (BICS),
- MSCI ESG Ratings Service, and
- Climate Action 100 and Net Zero Banking Alliance/Net Zero Asset Managers Initiative.

The Comptroller established the “**initial criteria**” based on industry classification, ESG data, and public commitments and pledges. The initial group of 19 entities met the GICS and BICS criteria, scored higher than their peer group with respect to MSCI ESG Ratings Service Data, and made public pledges to Climate Action 100 and one of Net Zero Banking Alliance or Net Zero Asset Managers Initiative.

5. More specifically, how did the Comptroller narrow down the universe of financial companies to those included in Annex I? What are GICs and BICs?

To identify the appropriate universe of financial companies, the Comptroller’s office used industrial classification systems to conduct an initial screen for publicly traded financial companies. These classification systems are taxonomies developed by data providers to facilitate financial analysis of different types of companies. These systems are broadly used in the financial industry. Below is a description of the systems used.

MSCI Global Industrial Classification System or “**GICS**” is divided into broad “sectors.” The Comptroller’s office limited its initial screening to companies in the following sub-industries within the GICS Financial Sector:

- Asset Management & Custody Banks
- Diversified Banks
- Diversified Capital Markets
- Investment Banking & Brokerage
- Multi-Sector Holdings
- Other Diversified Financial Services
- Regional Banks
- Specialized Finance

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Bloomberg Industrial Classification Systems or “**BICS**” includes further classification by Sector, Industry Group, Industry, Sub Industry, and Segments. The Comptroller’s office limited its screening to the following sub-industries within the BICS Financials Sector:

- Banks
- Diversified Banks
- Institutional Brokerage
- Investment Management
- Wealth Management

6. What additional steps did the Comptroller take to identify financial companies that boycott energy companies in Annex I? What other data did the Comptroller review and analyze?

As permitted by SB 13, the Comptroller also reviewed information provided by the research firm MSCI. The Comptroller also reviews information from MSCI for divestment listings relating to Iran, Sudan, foreign terrorist organizations, and the boycotting of Israel.

The Comptroller used MSCI’s ESG Ratings data service to help identify and narrow down the universe of financial companies for additional scrutiny. The ESG Ratings data detailed how MSCI rated the financial companies relative to their peers (quantitative) and how MSCI described their relevant governance and policies relative to their peers (qualitative).

More specifically, the information we reviewed included the following scoring indicators:

- A score which measures a companies' management of and exposure to key environmental risks and opportunities;
- An oil and gas financing policy indicator;
- A score measuring a company's oversight of ESG considerations in financing and investment activities;
- an indicator which describes the extent of engagement of the board of directors on perceived climate risk; and
- An indicator which evaluates the perceived environmental risks of the financial company’s lending and underwriting activities.

Finally, the select group of financial companies which met the initial criteria received a letter from the Comptroller (a “**verification request**”). The responses to this letter were reviewed to help make the final listing determination. Recipients had 61 days to respond to the Comptroller’s letter.

Financial companies with indicia suggesting they might be boycotting energy companies were subject to further review.

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7. Did the Comptroller review public pledges and commitments to third-party organizations such as Net Zero and Climate Action organizations to identify financial companies that boycott energy companies in Annex I?

Yes, the Comptroller considers them because the statutory definition of “boycott” makes a reference to commitments or pledges to meet environmental standards beyond applicable federal and state law. Signatories to these third-party organizations agree to impose “net zero” obligations or requirements in their financial, banking, and investment decisions.

The Comptroller reviewed three such public pledges to further screen financial companies:

- Climate Action 100,
- Net Zero Banking Alliance, and
- Net Zero Asset Managers Initiative.

The Comptroller sent a verification request to financial companies that met the initial criteria, including those that made public commitments to Climate Action 100 and Net Zero Banking Alliance or Net Zero Asset Managers Initiative.

8. Isn't a company's commitment to Climate Action 100 or Net Zero sufficient for a listing?

No, the review of verification responses indicated the financial companies consider the level of commitment to being a signatory to these lists differently. The responses show a varying level and timeline of adherence to the public principles of these organizations. As such, the Comptroller's office sought additional data to help inform the final listing.

9. What exactly is a 'verification request' and how did the Comptroller review it?

Financial companies identified by the Comptroller's “initial criteria” of industry classification, ESG data, and public commitments and pledges received a **verification request** from the Comptroller. In determining the financial companies to be listed in Annex I, the following inquiries were applied:

- Does the financial company adhere to a broad prohibition on financing oil, gas, and coal?
- Does the financial company commit to an aggressive reduction in fossil fuel emissions with goals of “net zero” prior to 2050?
- Does the company or its affiliates offer for sale to the public more than 10 US-based funds (e.g., mutual funds, ETFs, other investment company or public security) which include a prohibition or a restriction on oil and gas investments?

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The Comptroller also considered the following questions:

- Did the financial company fail to respond to the Comptroller verification request?
- Did the financial company fail to assert an ordinary business purpose exception as referenced in the statute?

The Comptroller reviewed the responses to all of these questions in detail. After determining whether the initial 19 financial companies continued to meet the “initial criteria,” a “yes” to any of these questions would qualify the entity for the Annex I list.

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FAQ – List of Funds in Annex II

10. What about the funds listed in Annex II? How did the Comptroller derive that list?

The Comptroller’s office reviewed publicly available information, including information licensed from Bloomberg, Inc., to identify those U.S.-based funds that appeared to adopt a prohibition or limitation on investment in the energy companies.

The Comptroller sent a **verification request** to the fund managers for these screened funds seeking information about the investment policies of funds associated with these managers, without identifying the screened funds.

If a fund manager chose to respond to the Comptroller’s request, the manager’s response was reviewed and compared with the Comptroller’s screened list. When reasonable, the Comptroller relied upon a manager’s response in preparing Annex II. However, the Comptroller considered and reconciled *prima facie* inconsistencies between the manager’s response and publicly-available information, including a fund’s prospectus and holdings. A failure to provide responsive information resulted in primary reliance on the initial screened fund list.

11. Are all “ESG” or “Sustainable” Funds included in Annex II?

No, all “ESG” funds are not included in Annex II. We examined a subset of the funds within the environmental category referenced below. More specifically the goal was to identify the subset of funds that include a specific prohibition or limitation on oil and gas investments.

The term “ESG” covers several concepts, including:

- “environmental”, or how a company addresses concepts such as climate change, energy emissions, waste management, or the use of natural resources;
- “social”, which covers a variety of issues such as diversity, safety, and health; and
- “governance”, which also covers a variety of concepts such as shareholder rights, board diversity, and executive compensation. A fund designed to address any of these issues could be referred to as an “ESG” fund.

12. I know of a specific company or fund that I believe should be on the list but isn’t. Why not?

The Comptroller examined many data points and factors in preparing the list. A quick glance at many financial companies in the investment industry and considering only one factor (such as public pronouncements, or number of “ESG” funds) will easily give the mistaken impression that the entity should have been on the list. Additionally, as demonstrated in the variation of responses

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reviewed by the Comptroller's office, financial companies have different and non-uniform understanding of ESG principles and fossil-fuel negative screens. The fund names can be misleading. The Comptroller does, however, recognize that the list may have omitted an entity or fund. Nonetheless, we encourage all users and observers of the list to examine all the factors we reviewed before concluding that an entity should have been on the list.

13. Did the Comptroller's office consider proxy voting when creating the list?

While the Comptroller's office recognizes that the proxy votes of some asset managers and public companies are concerning as such votes apply to the fossil-fuel energy industry, it did not consider these as factors in the listing process. Due to the amount of voting data required to be reviewed and to ensure consistency in the process (i.e., some entities reviewed would not be responsible for voting proxies), the Comptroller's office decided not to review proxy votes for this list. However, the team is presently exploring the possibility of incorporating proxy voting into the list creation methodology for future iterations of the list.

14. Could the methodology to prepare this list change in the future?

Yes, the publicly available information for the financial services industry relevant to the energy company sector is dynamic and will be subject to potential statutory, regulatory, and industry changes and innovations. New information may be incorporated into the process to identify financial companies to receive a verification request and to evaluate responses to a verification request.

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FAQ – Implications for State Governmental Entities, Agencies, and Political Subdivisions

15. Which governmental entities are subject to the list and what does it mean for them?

Specific state governmental entities (Employee Retirement System of Texas, Teacher Retirement System of Texas, Texas Municipal Retirement System, Texas County and District Retirement System, Texas Emergency Services Retirement System, and Permanent School Fund) are subject to the investment prohibitions and divestment requirements in the statute.

In addition, not later than the 30th day after receiving the list state governmental entities must notify the Comptroller of the listed financial companies in which the entity owns direct or indirect holdings.

Not later than January 5 of each year, such entities are also required to submit a report to the presiding officer of each house of the legislature and the attorney general that identifies all securities, sold, redeemed, divested or withdrawn in compliance with the Texas Government Code, section 809.054 (Divestment of Assets), identifies all prohibited investments under 809.057 (Prohibited Investments); and summarizes any changes made under 809.055 (Exempt Investments) Tex. Gov't Code sec. 809.001(7); Tex. Gov't Code sec. 809.052; Tex. Gov't Code 809.101.

16. Are state governmental entities required to divest from the companies and funds listed?

Yes, generally state governmental entities are prohibited from investing in and must divest from companies listed in accordance with the statutory requirements. However, certain exceptions may apply.

17. What are the exceptions a state governmental entity may claim to the requirement to divest its funds invested in a listed company?

A state governmental entity is not subject to the divestment requirements if the state governmental entity determines divesting would be inconsistent with its fiduciary responsibilities with respect to the assets under its management or other duties imposed by law relating to the investment of the entity's assets. Such determinations are to be made in accordance with the entity's processes and procedures. Tex. Gov't Code sec. 809.005.

In addition, state governmental entities are not required to divest from any indirect holdings in actively or passively managed investment funds or private equity funds. Tex. Gov't Code sec. 809.055.

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18. Are state governmental entities required to divest from companies or funds that are not on the Comptroller's list, such as affiliates of listed companies?

No, the divestment and reporting requirements described in Chapter 809 of the Government Code apply only to listed financial companies (i.e., companies that are specifically named in the list).

Each state governmental entity should review the list alongside its own portfolios and make its own determination regarding which of its assets are impacted.

19. How often can the Comptroller update the list of financial companies boycotting energy companies?

The list is subject to change on a quarterly basis. The Comptroller's office continues to review information on an ongoing basis.

As noted above, the Comptroller's office has done a thorough review of financial companies and has received information about affiliates and public offerings and believes the list to be complete at this time.

The Comptroller encourages state governmental entities to review the Comptroller's listing criteria to determine whether prospective investments could be subject to listing at a later date.

20. How would the list affect contract requirements for state agencies and political subdivisions of the state ('governmental entities')? Is there an exception to this requirement? Can state agencies and local governments contract with an entity that is affiliated with a company that appears on the list?

- a. Generally, a governmental entity (as defined in Tex. Gov't Code sec. 2251.001) may not enter into a contract of more than \$100,000 with a company with 10 or more employees for goods and services unless the contract contains a written verification that the company does not boycott energy companies and will not do so during the term of the contract. Tex. Gov't Code sec. 2274.002(a)-(b).
- b. This does not apply to a governmental entity that determines this requirement is inconsistent with its constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds. Tex. Gov't Code sec. 2274.002(c)

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- c. So long as the contractor provides the statutory verifications as required by law, the statute does not prohibit a state agency from contracting with an entity that is affiliated with an entity that is listed. Tex. Gov't Code Chapter 2274.

21. I am a private citizen in Texas, am I required to take any action with respect to this list?

No, this list only applies to state governmental entities and to their investments and contracts.

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FAQ – Contact Information

For questions or comments about this list or investment-related issues please contact the Texas Treasury Safekeeping Trust Company at divestment@ttstc.texas.gov.

For questions or comments about contracts or procurement please contact the Comptroller's statewide procurement division at spd.outreach@cpa.texas.gov.