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S&P: Texas Ousts Barclays Over Net-Zero Policies, Raising Bond Market Concerns.

Barclays PLC can no longer underwrite municipal bonds in Texas after the state's attorney general determined the bank may be a "fossil fuel boycotter" in violation of state law.

London-based Barclays was at least the third municipal bond underwriter to be ousted from the state in recent months because it participates in the Net-Zero Banking Alliance (NZBA), a UN-convened initiative seeking to decarbonize the sector in alignment with the Paris Agreement on climate change.

Barclays played a relatively small role in the booming Texas muni market. In 2023, the bank's market share was 3%, accounting for about $2 billion of nearly $60 billion issued in municipal bonds, said Daniel Garrett, an assistant finance professor at the University of Pennsylvania's Wharton School.

Still, the state's decision to bar underwriters could have a cumulative impact, Garrett said in an interview. Municipal underwriting for Texas towns is already limited because the borrowing market is segmented by laws and regulations that vary from state to state, he said.

"We know what direction this pushes costs for Texas borrowers — it pushes costs up," Garrett said.

Garrett co-authored a 2022 report estimating that municipalities and other public entities in Texas would pay between $303 million and $532 million more in interest on the $32 billion they borrowed during the first eight months after Texas passed two laws prohibiting environmental, social and governance investment criteria.

Barclays did not respond to questions raised by Attorney General Ken Paxton's office over the bank's participation in NZBA. This means "Barclays' activities may require it to be classified as a 'fossil fuel boycotter,'" a Jan. 26 press release from Paxton's office said.

A Barclays spokesperson declined to comment.

Barclays was the seventh-largest investor in fossil fuels globally between 2016 and 2022, according to the 2023 edition of "Banking on Climate Chaos," a report published by a consortium of environmental groups tracking financial sector investments. The NZBA has been criticized for not putting more pressure on banks to meet commitments to decarbonize their portfolios.

'A troubling trend'

Glenn Hamer, president and CEO of the Texas Association of Business, said in an email that the Lone Star State has instituted "some of the most important pro-business policies of any state in the nation."

"However, further tightening the municipal bond market has serious potential to harm our state's taxpayers and our overall business environment," Hamer wrote. "Already, we've witnessed a troubling trend of fewer banks to underwrite bonds, resulting in higher interest rates, uncertainty for local governments and a larger local debt burden that is ultimately levied on Texas taxpayers."

For the past three years, leaders of some Republican-leaning states have been engaged in a campaign to root out corporate ESG-related policies they deem harmful to their economies — at times affecting local towns more than large Wall Street firms.

In a related anti-ESG action, 12 state agricultural commissioners on Jan. 29 requested information from six leading US banks about their NZBA participation. They raised questions over the initiative's impact on food availability, credit for farmers, agricultural product prices and "overall negative economic consequences."

As examples, the commissioners pointed to Citibank NA committing to set emission-reduction targets for its agricultural portfolio, the food crisis in Sri Lanka spurred by a ban on synthetic fertilizer imports, and suggestions that Americans need to cut their consumption of beef in half to help reduce methane emissions.

by Karin Rives

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