
Wells Fargo Sees 'De Facto Ban' on Texas Muni Business Due to New Energy Law.

- **State comptroller surveyed 158 firms to find energy boycotters**
- **Findings due by Sept. 1, leaving Texas muni market in limbo**

Texas's quest to root out financial firms hostile to the energy industry has the likes of BlackRock Inc. and JPMorgan Chase & Co. defending their policies and Wells Fargo & Co. warning of lost business in the second-biggest US market for municipal debt.

The concerns, outlined in letters and emails obtained through public-records requests, show how Wall Street is moving to preserve its public-finance operations in Texas in the wake of a new GOP law that restricts the state and its local entities from entering into some contracts with companies that "boycott" the energy industry. The measure also affects state organizations like pension funds.

About 90 companies have responded as of mid-June to a survey by Texas Comptroller Glenn Hegar regarding their energy-industry policies, with the majority, including BlackRock, Invesco Ltd., JPMorgan and units of Morgan Stanley and Royal Bank of Canada, saying they don't boycott fossil fuels, public records show. Final responses from the 158 firms queried were due June 10, and Hegar's office has until Sept. 1 to publish its decisions, a spokesperson said, citing the statute.

The prospect of an extended wait is costing banks business as issuers balk at hiring underwriters whose status may be unclear for months. There's risk for borrowers and taxpayers too: A separate law targeting gun policies has shut some major banks out of Texas's muni market, raising localities' financing costs by hundreds of millions of dollars, in one analysis. Texas issuers sold about $50 billion of munis in 2021, second only to California, generating roughly $315 million of underwriting fees, data compiled by Bloomberg show.

A lawyer for Wells Fargo voiced concern last month to the state attorney general's office, which oversees nearly all Texas muni sales.

"Uncertainty in the market is leading to a de facto ban on Wells Fargo and other similarly situated financial institutions serving as an underwriter or placement agent for municipal bonds issued by Texas municipalities and government agencies," Vincent Altamura, assistant general counsel for the bank, wrote in a May 18 letter, according to a document obtained through a public-records request.

Allison Chin-Leong, a Wells Fargo spokesperson, declined to comment. Hegar's office declined to comment before the release of his findings.

Most of the firms that received a query from the comptroller had already certified their compliance with the energy law, known as Senate Bill 13, after it took effect in September, and had been doing business for months. The measure's proponents say it's aimed at protecting Texas's oil and gas industry amid the rise of environmental, social and governance standards.

But Hegar's survey, initiated in March and April, threw those affirmations into question, Texas

Attorney General Ken Paxton's office said in April. A spokesperson for the office declined to comment.

In a May letter to the attorney general's office, a group of Texas bond lawyers said that governments have been choosing banks that haven't received a letter from the comptroller. That's because replacing an underwriter on a deal that's been sold creates difficulties for both banks and issuers, they said.

In just one example, a school district between Dallas and Plano replaced Wells Fargo as a senior manager on a $192 million bond sale last month, tapping Piper Sandler Cos. instead because of concern the financing could be derailed.

If a government is under contract with a firm under review by Hegar, there should be a provision allowing the issuer to replace the bank if the company makes it onto the comptroller's list, the attorney general's office said. That has caused banks that have received letters to lose business, even if they're not yet formally listed.

In the past two weeks, Barclays Plc, Morgan Stanley, RBC Capital Markets and Wells Fargo haven't been senior managers on any bond deals by Texas or its municipalities, data compiled by Bloomberg show.

Jeaneen Terrio, an Invesco spokesperson, said the company makes investment decisions based on client needs rather than dictating outcomes based on its own views. Kaitlin Newingham at RBC said the bank's standing letter is in compliance with SB 13 and that it looks forward to serving as senior underwriter for the state and its issuers. Representatives for Barclays, BlackRock, JPMorgan and Morgan Stanley declined to comment.

'Strongest Bank'

"We don't need to be messing with the bond markets right now," said Janet Dudding, a Democrat running against Hegar in November. "They should just pick the strongest bank."

Pension funds are also impacted by the law, which says state entities are required to sell, redeem, divest or withdraw from all publicly traded securities of a company on the list, although there are exceptions if selling would cause financial harm.

Spokespeople for Texas's two biggest pensions — Teacher Retirement System of Texas and Employees Retirement System of Texas, which manage more than $200 billion combined — declined to comment, saying they'll wait for further clarification from the comptroller.

Texas's approach could serve as a model for states like West Virginia and Kentucky, which have passed similar legislation. GOP officials there say they'll take note of Texas's list.

Bloomberg Markets

By Danielle Moran, Shelly Hagan, and Amanda Albright

June 15, 2022