

Discussion of “Do banks practice what they preach? Brown lending and environmental disclosure in the euro area”  
(by Gambacorta, Polizzi, Reghezza, & Scannella)

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# The great debate on greenwashing

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- Banks increasingly emphasize their environmental activities in their financial reports and voluntary disclosures.
- But are banks environmental disclosures credible or do they just contain unsubstantiated claims to symbolically comply with institutional pressure?
- This paper: what is the relationship between environmental disclosure and bank lending decisions?

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- A very necessary paper that puts early evidence into the greenwashing debate in banking.
- Careful execution that makes use of granular credit data. Awareness of identification challenges.

## Do banks practice what they preach? Sum up

- A very necessary paper that puts early evidence into the greenwashing debate in banking.
- Careful execution that makes use of granular credit data. Awareness of identification challenges.
- Intuitive results: Self-reported green banks are less likely to lend to brown borrowers.
- Plausible mechanisms: Effects due to bank managers' beliefs and awareness about environmental risks.
  - Banks that use a more negative tone in their annual reports have greater climate concerns → less likely to lend to brown borrowers.

# My discussions

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- Given the paper is very polished and mature, my discussion focuses on few general issues:
  1. Is divestment from brown lending a solution?
  2. What are types of environmental disclosures?
  3. Reconciling the greenwashing debate
  4. Small questions



Figure 4.1

**THE ROLE OF KEY ACTORS IN THE FACE OF THE CLIMATE CHALLENGE...**



**... IN A CONTEXT IN WHICH ...**



Source: Bank of Spain

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→ Is divestment from lending to brown firms is an optimal long-term solution?

→ Is divestment really socially responsible lending?

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Would helpful to include discussions on:

- What would be the equilibrium if environmentally-concerned banks continue to divest from lending brown firms?
- What should be the policy message to regulators and what should they do about environmental disclosures?

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  - generic, boilerplate statements on ESG/environmental?
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  - specific exposure to brown firms/industries?
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  - high-level, forward-looking statements?
- The disclosure content could reveal what really drive the relationship between disclosures and lending.
  - e.g., banks that lend a lot to brown firms talk more about it in their reports and at the same time reduce brown lending.

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## Suggestions:

- Include anecdotal examples on specific env. discussions that banks make in their reports.
- Motivate more on why focus on env. disclosures in annual reports and not, e.g., sustainability reports?
- Moving forward, explore the potential of AI tools in capturing disclosure content.

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- Giannetti et al (2023) report an opposite result that self-reported green banks lend more to brown firms.
- Yours focus on large borrowers with available GHG data and define brown borrowers at firm-level.
- Giannetti et al (2023) define brown borrowers at industry-country-year level to have a broad coverage of public and private borrowers.



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- Discuss the pros and cons of yours and Giannetti et al.
  - Banks are likely to pay more attention to large emitters anyway.
- Perhaps there is differential impact for large emitters versus small, private firms. Maybe lenders prefer to:
  - divest from large emitters (your paper)
  - fund small, private firms to support their green transition (Giannetti et al 2023)

## Other things

The paper is very neat (great!). This leaves a few questions:

- Focus only on lending volume. How about other loan terms?
  1. charge higher interest premium?
  2. issue smaller loans?
  3. less likely to initiate new lending relationships or more likely to terminate existing relationship with brown firms?

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The paper is very neat (great!). This leaves a few questions:

- Focus only on lending volume. How about other loan terms?
  1. charge higher interest premium?
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  3. less likely to initiate new lending relationships or more likely to terminate existing relationship with brown firms?
- Banks use disclosures to signal their climate commitments. What are the implications to the bank?
  1. Are loan-level effects reflected in bank-level composition?
  2. Do markets/regulators reward banks for greening their lending?

## Other things

- What are the implications to brown borrowers?
  1. Does funding become more expensive for them?
  2. What does their green transition path look like?

# Overall

- A very important paper on greenwashing debate in banking.
- Intuitive results and plausible channels.
- More discussions on the equilibrium and reconcile with other studies.

Thank You.