RED RIVER BANCSHARES, INC.

June 17, 2022

via email: rule-comments@sec.gov

The Honorable Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors [File Number S7-10-22] ("Proposed Climate Disclosures Rule" or "Proposed Rule")

Dear Chairman Gensler:

On behalf of Red River Bancshares, Inc. and Red River Bank, we thank you for the opportunity to comment on the Proposed Climate Disclosures Rule.

Introduction

Red River Bancshares, Inc. is the bank holding company for Red River Bank. Red River Bancshares, Inc. files reports with the Securities and Exchange Commission and would be subject to the Proposed Climate Disclosures Rule.

Red River Bank is a Louisiana state-chartered bank established in 1999 that provides a fully integrated suite of banking products and services tailored to the needs of our commercial and retail customers.[1] Red River Bank operates from a network of 27 banking centers throughout Louisiana and two combined loan and deposit production offices. The primary regulators for Red River Bank are the Federal Deposit Insurance Corporation ("FDIC") and the Louisiana Office of Financial Institutions. Consolidated total assets were $3.21 billion as of March 31, 2022. Red River Bank provides services through relationship-oriented bankers who are committed to their customers and the communities where we offer our products and services.

We are cognizant of the risks presented by climate change and embrace the reality that rules and standards are needed to address these risks. However, we believe the Proposed Rule's approach

[1] "We," "our," and "us," in this letter refers to both Red River Bank and Red River Bancshares, Inc.

will result in more negative consequences than positive ones for reporting community banking organizations such as Red River Bancshares, Inc. and Red River Bank.[2]

Key Points for Consideration

- **The Proposed Rule is Ultimately Harmful for Our Investors**

We understand the SEC's stated mission is "to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation."[3] The Proposed Rule is expansive, mandating extensive, non-financial disclosures on climate-related issues for all reporting companies, regardless of industry and size. For a reporting community bank, this is likely to lead to economic damage, harming investors, and stifling capital formation.

The backbone of the community banking business model is serving small businesses. As stated by the Independent Community Bankers of America in its September 2021 paper, "Climate Change Regulation on Community Banks: Risks of Choking Off Credit to America's Communities," community banks are the leading lender to small businesses, making more than 60 percent of all small business loans under $1 million.[4] The ability of a reporting community bank to effectively lend to small businesses will be hampered by the Proposed Rule.

Under the Proposed Rule, reporting community banks will have to disclose "Scope 3" greenhouse gas emissions. This is the bank's customers' greenhouse gas emissions, including what has been referred to as "financed emissions."[5] While the Proposed Rule provides a safe harbor for Scope 3 disclosures for smaller reporting companies ("SRCs"), so that such information only needs a "reasonable basis" to not be considered fraudulent,[6] neither this threshold nor the safe harbor do much to alleviate the burden of disclosing Scope 3 greenhouse emissions by a reporting community bank and its customers.

For a reporting community bank's small business customers, the burden and cost of determining their greenhouse gas emissions with a "reasonable basis" may well outweigh the benefit of doing business with such bank. We feel it is highly unlikely that many of our small business customers will be able to give us this information, even if motivated to continue their banking relationship with us. Small business customers will seek out non-reporting banking organizations and other

[2] In the rest of this letter "reporting community bank" is meant to include reporting community banking organizations, encompassing holding companies.
[3] From "About the SEC" published at https://www.sec.gov/about.shtml .
[4] See page 5 of the paper published by the Independent Community Bankers of America at https://www.icba.org/docs/default-source/icba/advocacy-documents/reports/climate-change-regulation-on-community-banks-report.pdf .
[5] See page 1 of Sullivan & Cromwell LLP article published at https://www.sullcrom.com/files/upload/sc-publication-proposed-sec-climate-disclosure-rules-implications-for-financial-institutions.pdf ["In particular, the disclosure of Scope 3 greenhouse gas emissions (which capture financed emissions) and climate scenario analysis will likely be mandatory for many financial institutions."].
[6] See page 211 of the rule as published at https://www.sec.gov/rules/proposed/2022/33-11042.pdf .

types of lenders. As a result, Red River Bank's business model and income, and that of other reporting community banks, will be negatively impacted.

Additionally, the SEC estimates that for SRCs "the costs in the first year of compliance…to be $490,000 ($140,000 for internal costs and $350,000 for outside professional costs)."[7] This is a substantial cost for a reporting community bank. By contrast, Red River Bancshares, Inc. spent less than half of this amount for all of its audit and audit-related fees in 2021. The cost of compliance with the Proposed Rule will be burdensome and comes at a time of growing economic uncertainty. Going forward, compliance with the Proposed Rule could be the most significant professional cost required for a community bank. Ultimately, the result of the Proposed Rule on a reporting community bank is investor harm, not investor protection.

- **Consideration of Industry, Complexity, Size, and Primary Regulators Needed**

We urge the SEC to tailor its Proposed Climate Disclosures Rule to better fit the industry type, complexity, size, and the presence of primary regulators of reporting companies. A one-size fits all approach will be unduly burdensome on: (1) industries for whom climate standards are just now emerging, (2) smaller companies who are facing high costs of implementation, and (3) industries facing differing rules from primary regulators. Some industries already have mature systems in place to aid with complying with the Proposed Rule because of the nature of their industry, such as energy companies. However, the community banking industry does not yet have consistent standards or experts to turn to as climate-related methodologies in the banking industry are new and evolving. For example, our banking services core provider has not yet developed a climate disclosure product; therefore, climate-related systems that easily integrate with our account and loan information are not currently available.

Furthermore, banks and bank holding companies are unique among reporting companies. They are already highly regulated for safety, soundness, and compliance with numerous laws and regulations. In addition, federal banking regulators are currently studying climate risk and preparing principles for industry review. For example, the Office of the Comptroller of the Currency and the FDIC have released principles for climate related financial risk management and are seeking comment, with such principles being applicable to large banking institutions (those with over $100 billion in total consolidated assets).[8] Community banks are notably not included within the scope of such principles. Accordingly, we urge the SEC to consider the existing regulatory framework under which banks operate, and that the banking regulators are uniquely and best qualified to determine the impact of proposed regulations upon banks, bank holding companies, and the banking system. Without coordination among regulators, banking

[7] See page 373 of the rule as shown at https://www.sec.gov/rules/proposed/2022/33-11042.pdf .

[8] See *FDIC Issues Request for Comment on Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions* (Mar. 30, 2022), available at FDIC: PR-27-2022 3/30/2022; and *OCC Seeks Feedback on Principles for Climate-Related Financial Risk Management for Large Banks*, News Release 2021-138 (Dec. 16, 2021), available at https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138.html .

organizations subject to the Proposed Rule could end up having to comply with duplicative or contradictory requirements, increasing costs unnecessarily.

- **The Proposed Timing of Implementation is Unreasonable**

A recent article stated the following about the Proposed Climate Disclosures Rule: "If adopted, the proposal would represent the most far-reaching public company disclosure and governance mandate to be introduced in decades."[9] And yet, the timing for implementation is very quick for all companies, regardless of size, financial resources, or available expertise. If the Proposed Climate Disclosures Rule is enacted as is, Red River Bancshares, Inc. will likely need to have information gathered in 2024 for disclosure in 2025. As noted above, there is no readily available software to assist with the tracking and maintenance of data. The expert assistance we have examined to date is very expensive for a community bank, not specific to the banking industry, and could not be implemented quickly. Nor does Red River Bank have internal staff with experience in such matters.

As a result of the novelty and far reaching effects of the Proposed Rule, a year and half is insufficient time for implementation. Tracking greenhouse gas emissions is a new and emerging issue for community banks like Red River Bank. There are no peer networks to turn to. There are no established standards or methodologies to turn to. And any software that ties into our customer data base, which contains non-public personal information, will need to be strongly vetted for privacy and cybersecurity concerns. Community banks rushing to comply with the Proposed Rule under such constraints will not further the SEC's goal of maintaining fair, orderly, and efficient markets.

Conclusion

Being organized and operating in Louisiana, we are keenly aware of the impact of weather related catastrophes, and we, like other community banks, have extensive business continuity plans and consider weather related risks when making all business decisions. The Proposed Climate Disclosures Rule will not help us with these critical endeavors. Rather, it will detract from our efforts, damage our business model, and cause us to incur costs without benefits to our company. As a result, our investors will be harmed, markets will grow more inefficient, and capital formation will be stunted.

We would ask the SEC to consider its materiality standard in light of our concerns. In a March 21, 2022 letter, SEC Commissioner Hester Pierce stated the below:

> Justice Thurgood Marshall described our existing materiality standard in TSC Industries v. Northway: an item is material if there is a substantial likelihood that a reasonable investor would consider the information important in deciding how to

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[9] See "SEC proposed climate disclosure regime" published by the law firm Davis Polk at https://www.davispolk.com/insights/client-update/sec-proposes-climate-disclosure-regime .

> vote or make an investment decision. The "reasonable investor" Justice Marshall referred to in TSC Industries is someone whose interest is in a financial return on an investment in the company making the disclosure. Thus, there is a clear link between materiality of information and its relevance to the financial return of an investment. [*Citations in original omitted.*][10]

The Proposed Climate Disclosures Rule will result in material impact needing disclosure to our investors – but not as intended by the rule. Rather, we believe the material disclosure will be that the costs to implement the Proposed Climate Disclosures Rule, and the negative and chilling effect on our customer base, will be serious and material.

Thank you for the opportunity to provide comment and we appreciate your willingness to consider our perspective.

Sincerely,

Blake Chatelain

R. Blake Chatelain
President & CEO
Red River Bancshares, Inc. & Red River Bank

cc: Boards of Directors of Red River Bancshares, Inc. & Red River Bank

[10] See part II of Commissioner Pierce letter of March 21, 2022 published at https://www.sec.gov/news/statement/peirce-climate-disclosure-20220321 .