CALIFORNIA BANKERS ASSOCIATION

CaliforniaBanker

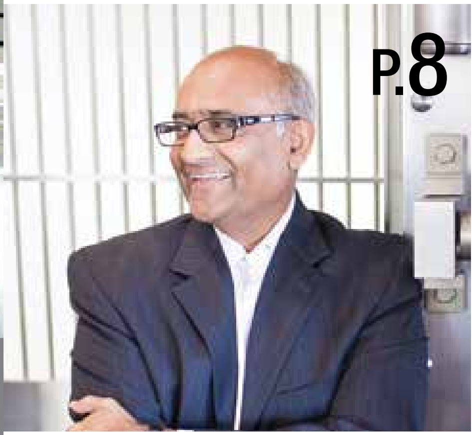
ISSUE 6 2023

A PUBLICATION OF CALIFORNIA BANKERS ASSOCIATION

WHAT'S INSIDE:

Contents ISSUE 6 2023

CALIFORNIA BANKERS ASSOCIATION



FEATURES

DEPARTMENTS

View this issue and past issues of CaliforniaBanker online any time at www.CalBankers.com

©istock.com: thisbevos; sandsun; Ryan Herron; Marilyn Nieves

CaliforniaBanker is the official publication of California Bankers Association.

California Bankers Association, 1303 J Street, Suite 600, Sacramento, CA 95814, P: 916-438-4400/F: 916-441-5756, Email online at www.CalBankers.com.

Annual Conference & Directors Forum

April 19-22, 2024

CALIFORNIA BANKERS ASSOCIATION

Fairmont Orchid, Hawaii
Island of Hawaii · Hawaii

> We look forward to the opportunity to continue to serve and support you in 2024.

As this year ends, we want to thank you for your support of our association. We deeply appreciate all that you do to ensure that our association remains strong and sharply focused on advancing the success of our members and moving this industry forward.

Advocacy is at the forefront for CBA. Our advocacy team navigated another complex year and was successful in influencing numerous legislative and regulatory measures affecting banks doing business in California. On behalf of our members, we fiercely stood up for our interests in Sacramento and Washington, DC., and we are ready to do the same next year.

State-side, we took a leadership role on numerous legislative measures impacting the industry, but more specifically on legislation increasing liability on banks when elders are the victims of financial abuse. While the measure failed, it will be back next year. We also led on two climate-related financial risk disclosure measures that were signed by the Governor. Among other public policy debates brewing in Sacramento, regulating the use of artificial intelligence is going to be a priority for lawmakers.

We traveled back to Washington, D.C., four times this year. We made progress on the measure allowing banks to provide financial services to cannabis-related businesses and successfully prevented an effort to impose restrictions on credit cards, known as the Credit Card Competition Act. While not much was accomplished legislatively, there was a lot of rulemaking activity, including the adoption of the Small Business Lending Reporting Rule and the Community Reinvestment Act modernization.

While advocacy is our core mission, we strive to make sure that our forums and gatherings provide opportunities for bankers to network with their peers, to share their experiences and expertise with one another, and to enhance their professional development. In 2023, our in-person conferences, Bank Presidents Seminar, Annual Conference, and Bankers Summit, were a success. We also hosted a successful Legislative Forum in Sacramento, an event that brought California elected officials, regulators, key decision-makers, and influencers together to share their insights on emerging issues. We are looking forward to building on the momentum and success of our conferences next year starting with our Bank Presidents Seminar in January.

We were proud to host our first Women in Banking Mixer in November, generously sponsored by the Federal Home Loan Bank of San Francisco. A special congratulations to Adriana Sejera, Senior Vice President of Commercial Services at Bank of the Sierra, who drove four hours from the San Luis Obispo area to attend the mixer. We are grateful to Community Commerce Bank and their dedicated team for their invaluable support in making the event a success. We are excited to host four mixers next year.

As we move into next year, we hope that you will explore our scholarship program available to employees of California member banks. Eligible employees from your bank can qualify for banking school scholarships to cover the full three years of banking school at Pacific Coast Banking School, the Stonier Graduate School of Banking at the University of Pennsylvania, the Graduate School of Banking at the University of Wisconsin, or the Graduate School of Banking at Colorado. To learn more about the scholarship program, please visit our website.

During the last two months, I have had the opportunity to go out on the road and visit individually with members of our executive committee. I am so proud of all that you do to support your customers and communities. Connecting in-person is a shot of adrenaline and it charges the batteries. I'm looking forward to doing more bank visits next year.

We look forward to the opportunity to continue to serve and support you in 2024. Wishing you all a joyful holiday season and a prosperous New Year!

Bringing members together. Making our banks better.

Kevin Gould
President & CEO, California Bankers Association

A Conversation with Ash Patel

Q: Can you tell us about your journey to become the Chairman, President, and CEO of Commercial Bank of California? What inspired you to pursue a career in banking?

Some things in life happen by accident. And some things happen for a reason. I believe the key to success is knowing when to seize an opportunity, no matter the circumstance.

My career began as an accident. I came to visit my brother in the United States from my home in Zambia, Africa. It was not my intention to stay, but I did. I sent my resume out to a few banks and a woman from Bank of America — who was also from Zambia — wanted to meet me. They had an opening for a teller position and I took it.

I called my dad back home to tell him and his response was, "But remember, we are Indian and we are entrepreneurs. You can work for B of A, but I want you to find out how B of A makes money." With that, I was curious and determined to find out how banks make money.

My curiosity took me on an adventure. I asked every banking industry executive I met how banks make money. Most only understood the transactional side of the business. It wasn't until I received a job offer from the president of the Bank of Orange County that I got my chance to learn. I accepted a pay cut in return for a seat at the executive table and a seven-year crash course on how a bank really makes money. After years of fearless curiosity, the doors unlocked to a world of understanding that was pivotal to my success.

I set off to open my own bank and continued seizing the opportunities in front of me. After I sold that bank, I was presented with an opportunity to join Commercial Bank of California in 2013. Since then, we have grown from less than $200 million in assets in 2013 to $2.3 billion as of June 30, 2023. I attribute this growth to smart acquisitions, innovative growth into the payments industry and a really strong team that leads with an entrepreneurial mindset. Our people-centric culture played a big part in navigating the tough times and in inspiring our employees to give their very best during this growth phase.

What values and principles have guided your leadership style in the banking industry, and how have they contributed to your success at Commercial Bank of California?

My entrepreneurial nature caused me to instill an entrepreneurial mindset into the CBC team. This approach not only inspired each person to take ownership in the bank's success, but it transformed the business. I believe, regardless of the size of the company or how institutional it may be, you should always think like an entrepreneur.

I also live and lead by the famous Winston Churchill quote, "never, never, never give up." I love this quote because it resonates with me and my life. I've had many failures in my life and had I given up, I would never have made it to where I am today, and impacted as many lives as I have and grown these successful businesses. It's more than leading by example; it's teaching my team how I became successful and giving them the tools so they can too.

I believe in building a bank that is both purposeful and profitable. We have not wavered from that commitment, and have invested significant time and effort in developing the leadership skills to build such an organization. It is a process that is challenging, rewarding and continually evolving. We thoughtfully crafted our purpose statement, "Promote Life Wealth" and values to create an environment that promotes continuous learning and growth for our employees and stakeholders in all aspects of life — financial, intellectual, emotional, social and spiritual.

Commercial Bank of California is known for its focus on personalized banking services. How do you ensure that your bank maintains a strong customer-centric approach in an increasingly digital world?

I believe there's a time and a place for technology in what we do. Yes we consider ourselves a fintech bank, and leverage innovative payments and banking technologies for our clients and partners, but we have to remember that we grew to where we are today because of the strength of our relationships. Several years ago, we set ourselves apart from other banks by launching a Client Experience (CX) team. Our CX team works with each department to map every touch-point our clients have with our team members in order to streamline the process for a better experience. They are constantly conducting research, asking questions, developing new strategies and more. As a result, we can better anticipate needs while providing services and solutions our clients didn't even know they needed.

What unique strategies or initiatives has Commercial Bank of California implemented to differentiate itself from larger, more established financial institutions?

There are several ways we have differentiated ourselves from larger, more established financial institutions. The first is launching the CX team that I previously mentioned. However, one of our biggest differentiators is our private status and ownership structure. Everything we do is filtered through the lens of a private bank that puts clients' needs at the forefront of our decision-making. This means:

- We are not publicly traded and therefore we don't have investor pressures like most banks. Being private allows us the flexibility to make decisions in the best interest of our clients, our team, and the market dynamics.
- We are shielded from the exposure of the less predictable public markets and purposefully closely manage our own investment risk to protect the bank, the local community, our team and our clients. We can achieve this because our investment portfolio is well diversified with a focus on steady cash flow generation and a low-to-moderate exposure to interest rate risks.
- We are able to pick and choose the industries in which we want to work. Our clients, from both a deposits and a lending standpoint, are vastly diversi-

fied and rooted in time-tested industries that are less impacted by short-term market volatility, and each of our clients is thriving in the strong, business-friendly environment in which we all operate.

- We have a Board of Directors composed of people who are deeply rooted in the local business community and who greatly impact the Southern California local economy. Because of this, they are dedicated to making sure the bank also makes a positive impact in the community — and our business decisions are filtered through that approach.

This private status combined with our thoughtful leadership approach is what we believe makes CBC unlike any bank out there. We have purposefully taken the partnership approach in working with each client and partner to make their goals, our goals. Our private status makes this possible and that status will remain intact — it allows us to be driven by our collective purpose, not just turning a profit.

When our financial decisions are based on your business growth, we can build a stronger partnership and stable growth trajectory. For the last 20 years, we have been focused on being a purposeful partner while finding new innovations and programs that help businesses grow.

This mindset and approach is also what has led to our third strategy that differentiates CBC from other institutions: building our own payments processing engine. Our CBC Payments team has been leading acquirer and ISO sponsorship opportunities and robust payments solutions for nearly 15 years. To round out our payments offerings, we strategically acquired VeriCheck, Inc. (VCI) in 2016, an ACH payments company, and have invested in researching and developing fintech products to both improve financial operations of our clients but also our partners in the payments industry. The difference between CBC and other payments-focused banks, like the banks that collapsed earlier in 2023, is that we aren't leveraging payments as an investment for the bank — we're doing it as a service to our clients and partners, which as a private bank allows us to make more sound innovation decisions to grow the payments side of our business based on what those clients need.

Commercial Bank of California has received several accolades and awards. Could you highlight some of the key achievements or milestones that you are particularly proud of during your tenure as CEO?

Two things come to mind, and both are because we have an incredible team. First, I'm proud to share that our team worked tirelessly during the pandemic and Paycheck Protection Program (PPP) to save 500,000 jobs, funding nearly $250 million in PPP loans which saved more than 800 businesses. We helped so many clients that were turned down by the big banks, and it was all because we had great systems and technology in place that allowed us to be nimble, and to scale.

Second, I'm proud to share that CBC was named one of So Cal's Best Places to Work for two years in a row, in 2022 and 2023. We have always had a "people over profits" mentality and that has served us very well through the years as we've built our team. Our employees are our competitive advantage. Each of them embodies our core values and are ambassadors of our culture every day.

How does Commercial Bank of California balance its commitment to traditional banking practices with the need to embrace digital banking and fintech partnerships to meet the evolving needs of customers?

Our CX team is constantly working with the rest of our teams to identify the evolving needs of our clients. This way, we can grow and innovate while staying closely in touch with their needs on a personal level. We have built our teams thoughtfully in a way so that our client-facing teams can do what they do best, while our payments and technology teams do what they do best, and the CX team helps bridge the gap of needs and innovation for everyone. We're very focused on meeting our clients where they are, leveraging new technology to support them, adapting to and even anticipating their needs in our ever-changing digital environment.

Over time, CBC has acquired fintech companies like VeriCheck and ACHWorks to better support our clients as they embrace technology and scale their businesses. As part of those technological advances, we are finalizing the development of a new scalable, secure and stable ACH payments processing platform. It is one of the first platforms of its kind built on Microsoft's Azure cloud platform and has the technology to help clients scale their payment processing while streamlining operations.

Commercial Bank of California has been a strong advocate for financial literacy. Can you share how your bank is

making an impact in this area?

We are committed to both the needs and the success of our community. We want people to thrive, and we want businesses to thrive. That is why we started a financial literacy program in partnership with more than a dozen local schools and community organizations. These programs use a variety of traditional and innovative methods to help children and young adults learn the value of money. These include basic financial literacy training, financial role-playing games, coaching, mentorship and individualized counseling from various members of our team.

We also recognize that some of our diverse small-business clients could benefit from guidance navigating their business finances and learning about all the resources that are available to them to grow their business. We hold seminars where we'll go through this type of material to help guide them and grow. Altogether, financial literacy is a very big piece of the community service we offer.

Lastly, what drives your passion and dedication to banking, and how do you find a balance between your professional responsibilities and personal life?

The services banks provide extend beyond helping to ensure the success of any one business. Community banks are critical to the success of our country and they are relevant to the success of small businesses, which create 80 percent of the employment opportunities across the country. This is what drives my passion and dedication. What this team is doing is much bigger than me and my family, the families of our team or our investors. This is for our entire economy and stability as a nation. We're one of the few banks right now still lending in this environment — because our clients need it and we can help them navigate their finances to make these loans work hard for them. Our economy depends on it.

I'm sure many leaders will agree with me, finding a balance between my personal and professional life is difficult. When I joined CBC, I told the owner of the bank that I will be here every day and work hard for him, except for three weeks out of the year when I will fly back to India or Africa to be part of the noble work the Siksha Foundation is doing to rebuild schools in impoverished communities. I founded Siksha in 2013, and since then we've rebuilt dozens of schools, providing necessary living arrangements and learning tools to 20,000 children, and giving them the resources they need to achieve their dreams. The schools in rural India are in a really good place after our work, and many other organizations have joined to help. We've recently turned our focus to Zambia, where community schools are on the verge of collapse, without learning materials, and are too small to fit all the children inside. We've made great headway there, but there is a long way to go to help those children in my home country. The parents in the communities in Zambia have not only embraced us, but have jumped in to help where they can. We're excited for the future of the schools in Zambia. »

Government Relations: A Year In Review

By Jason Lane, Senior Vice President, Director of Government Relations, California Bankers Association

When the legislature convened for the 2023-24 legislative session, one-third of the legislature had never held statewide office. This sizable freshman class was the product of both redistricting, an event that coincides with the U.S. Census every 10 years, and the announcement by some sitting legislators that they would retire and not return to office. CBA spent much of the early part of this year developing relationships with these new members and discussing the important role banks have in their communities.

Much of the early dialog, however, quickly pivoted to the collapse of Silicon Valley Business Bank. Immediately, the association engaged in discussions with state and federal lawmakers to address further speculation about the health of the industry. The California Senate Banking and Financial Institutions held a joint hearing with the Assembly Banking Committee in May titled The Failure of Silicon Valley Bank: Where Regulation and Supervision Fell Short. While CBA was not asked to provide testimony during this hearing, the committees heard from Clothilde V. Hewlett, Commissioner, Department of Financial Protection and Innovation (DFPI), Avy Mallik, General Counsel, DFPI, and Jeanette Quick, Deputy Commissioner of Investor Protection, DFPI. The committee was very engaged and asked questions relative to the speed at which the Department responded to troubling warning signs, including the fact that 93.8 percent of Silicon Valley Bank's total deposits were uninsured. During the hearing, DFPI announced plans to increase oversight of banks with more than $10 billion in total assets in coordination with federal regulators as part of its examination process.

In the weeks following the hearing, DFPI met with CBA to unveil a significant increase in assessments on state-chartered institutions to ostensibly defray the cost of enhanced supervision of licensees. The 27 percent increase in assessments for the 2023-24 fiscal year is, according to DFPI, also the result of a reduction of approximately $450 billion in assets under supervision by the Department following the failures of Silicon Valley Bank and First Republic Bank, Silvergate Bank's liquidation, and merger activity within the industry. In response, CBA sent a letter to the DFPI expressing concerns with the recent increase in assessments against California state-chartered banks. Among other things, the letter requests an understanding of expense reductions and efficiencies that might be contemplated by the Department to minimize future increases and describes the consequences on state-chartered banks associated with the increase in assessments. Discussions about next year's assessment increase are ongoing.

Legislatively, CBA saw the introduction of SB 278 (Dodd). Sponsored by the Consumer Attorneys of California, this measure makes financial institutions liable for elder financial abuse if the institution should have known that the likely result of a transaction initiated by an account holder would result in fraud, and the institution failed to stop it. We opposed this expanded liability, which fundamentally alters the relationship between banks and their senior account holders. Under the measure, a bank employee could take the appropriate steps to warn an account holder that the transaction they've initiated with the bank may result in fraud, but if the employee honors the transaction, the bank could be held liable. With no clear safe harbor for institutions to utilize to avoid liability, banks will be forced to reevaluate their customer relationship with account holders over the age of 65. We launched a successful media campaign opposing SB 278 and worked with aging experts at Stanford University and the Milken Institute to publish an opinion editorial related to the measure. This legislation was ultimately held in the Assembly Banking Committee and did not advance this year but remains eligible for consideration next year.

CONTINUED ON PAGE 14

A CBA-sponsored measure adopting the Uniform Fiduciary Income and Principal Act has been signed by the Governor. The Act recognizes modern portfolio theory by allowing trustees to invest for the maximum total return, whether the return is in the form of income or growth of principal and provides more flexible terms giving trustees discretion to accumulate income or access principal when advantageous to further the purposes of the trust. Another uniform measure headed to the Governor, and supported by CBA, adopts the Uniform Directed Trust Act which provides a framework for allocating fiduciary power and duty between a trust director and a trustee by allocating the primary duty to the director while simultaneously maintaining a minimum core duty for the trustee to avoid willful misconduct.

We successfully negotiated several mortgage-related measures that are still active. We secured amendments requiring lender consent for borrowers that wish to separately convey an accessory dwelling unit from the parcel. We helped redraft a measure to improve compliance that requires a transferor mortgage servicer to furnish to a transferee mortgage servicer material written records regarding damaged residential 1-4 property resulting from a disaster where a state of emergency has been called. A measure adopting remote online notarization in California, supported by CBA, is nearing the legislative finish line.

Additionally, CBA was asked to join an opposition coalition to express concern about a package of water rights-related measures that are important to our agriculture lending community. CBA joined the coalition, and the package of measures were set aside for the remainder of the legislative year, though they will be eligible to move forward in 2024 as two-year measures.

Though the Governor vetoed a similar bill last year, CBA-supported Assembly Bill 39 (Grayson) was finally signed into law on October 13. This measure creates the Digital Financial Assets Law and grants regulatory authority to the Department of Financial Protection and Innovation (DFPI) to license and supervise all digital asset activity in the state unless the activity is conducted by a commercial bank or credit union. The measure broadly defines "digital assets" as any digital representation of value that is used as a medium of exchange, unit of account, or store of value, and that is not legal tender. This measure requires that the implementation of the department's new authority be finalized by January 1, 2024.

The Governor also signed CBA-opposed Senate Bill 253 (Wiener). The California Global Warming Solutions Act of 2006 requires the California Air Resources Board (CARB) to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the act. Additionally, the Governor signed Senate Bill 261 (Stern) another greenhouse gas reporting measure. Under this measure, on or before January 1, 2026, and biennially thereafter, a covered entity is required to prepare a climate-related financial risk report disclosing the entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk. The measure requires the covered entity to make a copy of the report available to the public on its own internet website. While Governor Newsom signed SB 253 and SB 261, his signing message acknowledged significant flaws in both measures and a commitment to direct his administration to work with the legislature on "clean-up" legislation to address implementation deadlines and the financial impact to businesses.

In November, CBA held its annual Legislative Forum where we heard from key policymakers and political thought leaders including California State Treasurer Fiona Ma, Assembly Budget Committee Chair, Phil Ting and the Chair of the Assembly Banking and Finance Committee, Tim Grayson. We also received panel presentations on Artificial Intelligence, Elder Financial Abuse, the state of California politics, and a Department of Financial Protection and Innovation presentation on the bank regulatory landscape.

As we look to next year, we expect that some of these legislative topics will resurface, along with new legislative proposals impacting the banking industry. The advocacy team, armed with the expertise and guidance of our member banks who tirelessly support our efforts, will be ready for whatever comes next. »

Jason Lane is Senior Vice President, Government Relations for the California Bankers Association and manages California state tax policy for the association, which involves analyzing legislation and regulatory activity, and the development of policy positions for the association. Lane is one of three lobbyists at CBA and, in addition to his primary focus on taxation, he also lobbies on behalf of the association on issues related to the state budget, and consumer lending legislation.

2024 GSB SCHOOLS

BUDGET NOW!

WISCONSIN SCHOOL OF BUSINESS
UNIVERSITY OF WISCONSIN–MADISON
TOGETHER FORWARD®

CENTER FOR PROFESSIONAL & EXECUTIVE DEVELOPMENT

FIND DETAILS AND ENROLL AT
GSB.ORG

GRADUATE SCHOOL OF BANKING
July 28 - August 9, 2024

This 25-month leadership development program provides the tools you need to be successful in your banking career. At GSB, you'll develop the critical thinking skills and leadership talents to manage change and motivate people by drawing on a clear understanding of all areas of financial services management. Plus, you'll earn a Certificate of Executive Leadership from the Wisconsin School of Business in addition to a GSB diploma.

BANK TECHNOLOGY MANAGEMENT SCHOOL
April 22-26, 2024

Created especially for financial services IT professionals, this popular and respected program explores critical banking and technology issues. Gain an in-depth understanding of bank profitability, technology management, security and more.

BANK TECHNOLOGY SECURITY SCHOOL
October 7-11, 2024

Especially for IT security officers, this program will broaden your understanding of the business of banking along with an in depth, interactive and hands-on study of the latest IT security techniques and strategies.

HUMAN RESOURCE MANAGEMENT SCHOOL
April 15-19, 2024

Designed for financial services HR professionals to help tie together important banking and HR issues, this school will expand your knowledge of the business of banking, human resource management and employee performance.

FINANCIAL MANAGERS SCHOOL
September 23-27, 2024

This school goes beyond the basics to present best practices and solutions to today's most critical financial management decisions. Designed by experienced CFOs for financial institution finance managers to provide the tools you need to build a solid foundation in asset/liability management.

DIGITAL BANKING SCHOOL
Offered Virtually Starting March 4, 2024

The first school of its kind – to help community banks grow in the digital banking space, with a focus on on innovation, digital product mix, customer engagement, technology, vendor partnerships and more.

Graduate School of Banking
at the University of Wisconsin – Madison

CBA High Priority Climate-Related Reporting Mandates Signed into Law

By Melanie Cuevas, Vice President of Government Relations, California Bankers Association

This year, California enacted two new significant pieces of climate legislation, requiring reporting of both climate-related financial risk and greenhouse gas emissions. The measures – SB 253 (Wiener) [Chapter 382, Statues of 2023] and SB 261 (Stern) [Chapter 383, Statues of 2023] – will have a significant impact on reporting entities as well as on those that do not qualify as a reporting entity themselves but exist within the supply chain of reporting entities. It is important to note that although the statutes are the result of three years of negotiations, language to SB 253 and SB 261, as of the signing date, will likely not be the ultimate rule with which reporting entities must comply. Based on CBA advocates' historic and ongoing engagement on this issue, we have compiled the below information for our members as they work with their internal compliance teams in addition to an explanation of how the policy is likely to evolve.

Who is impacted?

"Covered Entity" is defined as a corporation, partnership, limited liability company, or other business entity formed under the laws of the state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States and that does business in California, with a denoted annual revenue minimum. The total annual revenue threshold established in SB 253 is $1 billion and is $500 million in SB 261. Mandated reports of SB 253 and SB 261 alike must be submitted to the California State Air Resources Board (CARB) and must be publicly available.

CBA was successful in securing language in SB 261 that allows consolidation of reports at the parent company level, ensuring that subsidiaries are not also required to prepare a separate report, as well as language stating that entities satisfy the reporting requirements of SB 261 if they comply with another disclosure requirement pursuant to another government entity or voluntarily use a framework that meets specified requirements.

SB 253

The Climate Corporate Data Accountability Act, SB 253, requires entities to publicly report their annual scopes 1, 2 and 3 greenhouse gas (GHG) emissions. Scope 1 emissions include those stemming from sources an entity operates; scope 2 includes indirect emissions, such as those associated with electricity, heating or cooling; and scope 3 includes upstream and downstream emissions, such as those associated with employee commutes, energy used to grow raw materials, transportation and use of products, end-of-life disposal of products, etc. It is important to note that scope 3 incorporates 15 subcategories, including S3C15 "financed emissions" linked to investments and lending activity. For a financial institution reporting entity, reporting of financed emissions includes the emissions of all the companies in its portfolio apportioned based on how much of these companies' activities are financed by the financing entity.

Reporting entities will be subject to an annual reporting fee, to be determined by CARB. Non-filing, late filing, or other failure to meet requirements may result in administrative penalties not to exceed five hundred thousand dollars ($500,000) in a reporting year. CBA was successful in securing language to protect reporting entities that make scope 3 disclosures with a reasonable basis and disclosed in good faith in addition to language stating that penalties assessed through 2030 on scope 3 reporting shall only occur for non-filing.

SB 261

Reporting entities are required under SB 261 to biennially report climate-related financial risk in accordance with the recommended framework contained in the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as well as the entity's efforts to reduce and adapt to the reported risk. CBA was successful in securing language that allows risk reports to be consolidated at the parent company level in addition to a "comply-or-explain" provision, requiring reporting entities to provide detailed explanations in instances where reporting gaps exist.

Reporting entities will be subject to an annual reporting fee, to be determined by CARB. Non-filing or insufficient reporting may result in administrative penalties not to exceed fifty thousand dollars ($50,000) in a reporting year. CBA was successful in lowering the maximum allowable penalty as well as securing language stating that CARB shall consider whether the violator took good faith measures to comply.

Timeframes

SB 253

According to the measure, CARB must promulgate enacting regulations by January 1, 2025. Beginning in 2026, reporting entities must annually report and publicly disclose their scope 1 and scope 2 emissions for the prior fiscal year; beginning in 2027, reporting entities must annually report and publicly disclose scope 3 emissions for the prior fiscal year no later than 180 days after reporting scope 1 and scope 2 emissions. Scope 1 and scope 2 data must be audited by an independent third-party assurance provider at a limited assurance level beginning in 2026 and a reasonable assurance level beginning in 2023. Assurance engagement for scope 3 must be performed at a limited assurance level beginning in 2030; CARB may establish an additional assurance requirement for scope 3 emissions.

SB 261

This measure requires biennial reporting to CARB to commence no later than January 2026; the measure also requires entities to make reports publicly available on their websites. Under SB 261, CARB is required to contract with a climate reporting organization for the purpose of preparing a biennial public report reviewing the climate-related financial risk reported by industry and an analysis of sector-wide climate-related financial risk to California — including but not limited to potential impacts on economically vulnerable communities — and the identification of inadequate and insufficient reports.

Why Is This Happening?

Through enacting some of the most aggressive policies in the nation, the California Legislature has long held and seeks to retain the title of leader in the fight against climate change. California Governor Gavin Newsom has similarly captured the designation as "The Climate Governor." While attending Climate Week in New York on September 17, 2023, the Governor highlighted California's climate action — including a recent lawsuit filed in partnership with California Attorney General Rob Bonta against oil companies, claiming they deceived the public about the risks of fossil fuels — and previewed that he

CONTINUED ON PAGE 26

Opportunity for Banking Expertise as Business Optimism Rises in the Golden State

By Richard Cabrera, Head of Middle Market Banking, Umpqua Bank

Over the last five years, Umpqua Bank has conducted a nationwide study of small and middle-market businesses that make up the backbone of our economy. Our goal is to have a better understanding about the mood and the critical trends impacting the business segments we support: What's the mindset of owners and operators? What's their outlook for the year ahead? What challenges are they facing? How might they put their investment dollars to work?

Based on the insights from our research, businesses we surveyed across the country are more optimistic than in 2022. They're also more likely than a year ago to make proactive investments in key areas to help them achieve their strategic goals. These investments appear less focused on achieving top line revenue growth and designed to address efficiency and ensure the delivery of their products and services is more streamlined.

As C-suite teams plan for 2024 and adjust their three- to five-year plans, we believe now is a good time to understand the outlook of businesses in our state and engage them on strategic topics.

Optimism in California

One interesting finding in this year's survey shows that companies based in the West are more upbeat about the current state of the economy and where it is headed over the next 12 months. In fact, 58 percent of respondents based in California rate the current economic conditions as excellent or good compared to 33 percent in the Midwest, 39 percent in the South, and 36 percent in the Northeast. When asked if they anticipate the overall economic conditions in the United States will improve in the next 12 months, 55 percent of California-based business leaders believe economic conditions will improve compared to 46 percent of other businesses across the West, 33 percent in the Midwest, 39 percent in the South, and 34 percent in the Northeast.

This optimism may be explained in part by the industries that comprise the economy of the West and in particular the pillars that support the California economy. The Golden State maintains a number of international ports, has closer geographic ties to Asia, a vast agriculture industry, and is a leading technology hub. It also continues to be a top destination for immigration from India and other Asian countries.

This higher level of optimism is highlighted by the fact that 51 percent of California businesses will likely increase staffing levels in the next 12 months. This compares to 42 percent across the West, 33 percent of businesses in the Midwest, 39 percent and 36 percent of businesses in the South and Northeast, respectively. Additionally, 64 percent of California businesses surveyed expect their revenue and profitability to increase going into 2024.

It's also noteworthy that overall optimism and planned activity are most pronounced among the middle market. Considering California is home to more than an estimated 20,000 middle market companies, a segment responsible

CONTINUED ON PAGE 20

CONTINUED FROM PAGE 18
for 45 million jobs and one-third of all U.S. private sector GDP, banks supporting these businesses have an important role to play in the health and vitality of our state's economy over the next 12 months.

Supply Chain Boomerang

Close to half of middle market businesses we surveyed nationally have brought supply chains or manufacturing back to the United States in the last 12 months. In California, the onshoring trend is also consistent; 46 percent of California businesses have brought manufacturing or supply chains back into the country and a majority are considering a similar strategy in 2024.

Although companies in California are more optimistic about the future and confident about the business levers they can control, they also understand the need to be prepared for both opportunities and lingering economic headwinds. We believe banks have a tremendous opportunity to position themselves as trusted financial advisors and partners to their clients — especially as concerns about inflation, interest rates, and a potential recession are still top of mind for businesses across our state.

Based on Umpqua's survey, there are several potential areas to explore with your business clients:

- **Capital utilization:** Analyze your clients' performance history and how they are utilizing capital. Is the company in question using it in the most efficient way, especially if its leadership is considering large capital expenditures to increase efficiency? Then, discuss your analysis.
- **Cashflow:** From an advisory perspective, this is the time to really get under the hood of the businesses you are banking to see if they are optimizing their cash flow. This is among the most important exercises a company can take to improve efficiency and improve their cash flow position, especially when the economic picture ahead is not as clear.
- **Cybersecurity:** Are your clients prioritizing cybersecurity and deploying the latest cybersecurity tools to stay ahead of potential threats? Given the ever-evolving challenges in this area, 72 percent of California-based respondents expect to invest in financial tools to protect their payments systems. Nationally, cybersecurity now ranks ahead of talent issues for middle market companies and for good reason; they are highly focused on protecting against cyberattacks and see it as critical to protect working capital. This is a discussion that can be combined with conversations related to cash flow for example.
- **Business Model & Customer Needs:** As the economic situation evolves, tech disruption (generative AI) impacts everything. How well do your clients know their customers' evolving needs and is the business positioned to continue meeting those needs? The majority of the business leaders we surveyed in California expect to make significant changes to their lines of products and services over the next 12 months to stay relevant and ahead of customer needs.
- **Operational Efficiency—Digitization and Automation:** Profitability (as opposed to aggressive investments in growth) is top of mind right now. Doing more with less and doing it smarter is important to shore up margins, enhancing profitability and creating a competitive advantage down the road. Consequently, 86 percent of companies based in California are looking to digitize new areas of business to improve efficiency. This is an area where their banking partners can play a role in assisting them either with knowledge or financing depending on the projects they are looking to undertake.
- **Investments & Growth Opportunities**: Now may not be the time for many of your clients to take bold action and make acquisitions, especially with continued economic uncertainty and the geopolitical climate. However, it's important to stay informed and vigilant: 47 percent of California businesses surveyed believe they are very/somewhat likely to acquire another business over the next 12 months. If you have clients with strong cash positions and sound business models, there will be opportunities ahead to help them secure and strengthen their competitive position. »

Richard Cabrera is a leader in the world of corporate and commercial banking. He currently serves as Executive Vice President and Head of Middle Market Banking at Umpqua Bank where he leads the bank's asset-based lending division, debt capital markets, and corporate banking operations throughout Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah and Washington. Richard joined Umpqua in 2016. During that time, Umpqua has become a leading western regional bank with more than $50 billion in assets. The bank is consistently ranked by Forbes as one of America's Best Banks.

Year End Wrap-Up and What Lies Ahead — A Federal Update

By Kevin Gould, President & CEO, California Bankers Association
& Jason Lane, Senior Vice President, Director of Government Relations

With the divided Congress, and slim majorities in both the House of Representatives and the Senate, there wasn't much legislative activity last year. Conflict ruled not only between the political parties but also within them. Facing a potential government shutdown in September, House Speaker Kevin McCarthy negotiated the passage of a continuing resolution with the Democrats after attempts to win the support of his own party failed. Shortly thereafter, McCarthy lost his speakership and later announced that he would leave Congress at the end of the year before his current term ended. With all the turmoil, two major legislative issues impacting banks, one positive and the other negative, required the most attention.

Last September, the Senate Banking Committee passed the bi-partisan S. 2860, known as the Secure and Fair Enforcement Regulation Banking Act (SAFER Banking Act). The measure is a revised version of the banking industry-supported SAFE Banking Act, introduced as H.R. 2891 and S. 1393. The Senate's willingness to consider the SAFER Banking Act in committee represented progress given that the bill had passed numerous times from the House only to stall in the Senate. The measure sits on the Senate Floor awaiting consideration. Negotiations will need to continue as provisions in the measure have raised opposition from Republicans in the House.

The industry-opposed Credit Card Competition Act is an attempt by merchants and grocery chains to obtain a subsidy at the expense of smaller competitors and consumers that will raise costs on consumers, reduce access to card benefits, imperil payment system security at a time of growing global risks, and harm community financial institutions and their small business customers. H.R. 3881 and S. 1838 require the Board of Governors of the Federal Reserve System to prescribe

CONTINUED ON PAGE 22

CONTINUED FROM PAGE 21
regulations relating to network competition in credit card transactions. The authors of the measures have tried unsuccessfully to bury the bill's provisions into larger must-pass omnibus measures.

Congress focused time and energy on the failures of Silicon Valley Bank and Signature Bank. Both the House and Senate conducted a series of oversight hearings where they heard from federal and state banking regulators and executives from the failed banks. Several studies were produced by the federal regulators in response, including reports from the FDIC, Fed, and the Government Accountability Office.

Not surprisingly, we witnessed more activity in the regulatory space last year with major rulemakings by federal regulators being finalized. On March 30, the CFPB issued its final rule implementing the Dodd-Frank Act Section 1071 Small Business Lending Reporting requirement. In October, the FDIC, Fed, and the OCC adopted the CRA Modernization rule. Finally, in November, the FDIC issued its final rule implementing a special assessment to recover the loss to the DIF associated with the closures of Silicon Valley Bank and Signature Bank.

We traveled to Washington, D.C., four times to advocate on behalf of our members on pending legislative and regulatory matters and to strengthen the relationships we have with the California Congressional delegation. In 2022, we had the honor and privilege to meet in-person with Senator Dianne Feinstein. We were deeply saddened to learn of her passing this past September. Governor Newsom appointed Laphonza Butler who intends to serve the balance of Feinstein's term but will not run in 2024. In addition to serving on the Senate Judiciary Committee, Senator Butler has been appointed to the Senate Banking Committee.

The year 2024 is an election year. The Presidential race will occupy the political field and will divert attention away from advancing legislation. It's a crowded field seeking to replace Senator Dianne Feinstein, with three incumbent Democrat Congressional Representatives vying for the seat. California will be a battleground state for Democrats who are targeting the state in their effort to take back the House. The Democratic Party will look to unseat incumbent House Republicans who represent districts with tight voter registration. With 222 Republicans and 213 Democrats currently, the Democrats only need to flip five seats nationwide assuming they maintain their current total.

The industry will continue advocating for legislation allowing banks to serve cannabis-related legitimate businesses and we will hope to pick up where negotiations left off on the SAFER Banking Act. Senator Durbin will press for the passage of his Credit Card Competition Act. We will also look to build more momentum on the Access to Credit for our Rural Economy Act, a measure that exempts interest income on certain loans secured by rural or agricultural real property. Undoubtedly, we will see ongoing interest in pursuing a modernized federal privacy law. After California adopted the California Consumer Privacy Act (CCPA), several states have followed with the enactment of their own updated privacy laws. We will see whether adoption of a national standard gains traction. Preemption of state laws, particularly California's CCPA, will be a major element with some wanting the federal law to be a ceiling and others a floor.

We expect increased interest in the use of artificial intelligence and automated decision systems. President Biden issued a comprehensive executive order in November requiring the development of standards, guidance and best practices. The order seeks "to ensure that America leads the way in seizing the promise and managing the risks of artificial intelligence…" and to establish "standards for AI safety and security, protects Americans' privacy, advances equity and civil rights, stands up for consumers and workers, promotes innovation and competition…"

Major rulemakings will be under consideration. The Federal Reserve's deadline for comment on proposed rules relating to enhanced capital levels, referred to as the Basel III Endgame, is January 16, 2024. On a related note, the Fed also launched a data collection effort to gather more information from the banks affected by the capital proposal with the same January 16, 2024, comment deadline. How much time the Fed will need to absorb comments on each of these and take the next rulemaking step is unclear. Also, the comment deadline on the Fed's proposal to reduce the maximum interchange fee on debit card transactions is February 12, 2024.

We will be traveling back to Washington, D.C., at least four times in 2024. We hope that you might consider joining us on these important visits. »

CBA LEGISLATIVE FORUM

NOVEMBER 2023
SACRAMENTO

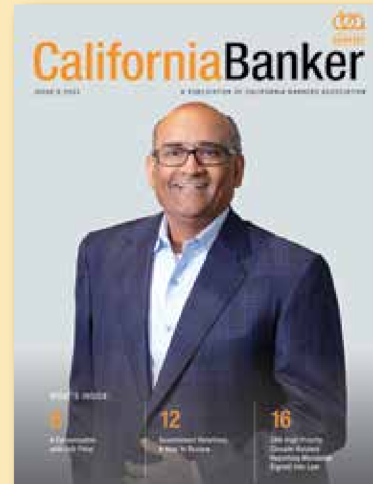
CBA WOMEN IN BANKING MIXER

NOVEMBER 2023

LOS ANGELES


WOMEN IN BANKING
BOOK CLUB

2023 CBA Advertiser Index



www.CalBankers.com

For advertising
https://bankbeat.biz/advertise/

CONTINUED FROM PAGE 17

intended to sign both climate reporting measures, but that "some clean-up" would be necessary. The much-anticipated signing messages, released on October 7, 2023, indicate non-specific concerns around infeasible timelines, financial impact, and potentially inconsistent reporting.

Notwithstanding the overlap of both the scope of reporting entities and the similarity in disclosure reports between SB 253 and SB 261, proponents of the measures prioritized enacting California policy that intentionally reaches well beyond the anticipated climate reporting rule of the Securities and Exchange Commission in terms of both reporting entities captured and the reporting requirements themselves. Some reporting entities may find themselves filing three separate reports in the coming years.

The Next Steps

In his signing messages of SB 253 and SB 261, Gov. Newsom instructed the legislature to find solutions to his concerns about timing and accuracy. Lawmakers will reconvene the Legislative Session in Sacramento on January 3, 2024; at this point, new measures may be introduced, and lawmakers begin work on the state budget. Due to CARB's deadline to promulgate regulations no later than January 2025, we anticipate that any agreed-upon solutions may move through the process on an expedited basis, either by way of a measure containing an "urgency clause," or via a budget trailer bill.

CBA advocates are continuing conversations with relevant stakeholders regarding both potential rulemaking by agency and potential solutions to the Governor's stated concerns, and we anticipate maintaining status as a resource to lawmakers and stakeholders. During the 2023 Legislative Session, the association maintained an "Oppose Unless Amended" position on SB 253 and SB 261, and submitted amendments on both measures that would remove the opposition of the association. CBA advocated, among other things, to delay timelines and to tie reporting of scope 3 GHG emissions data in SB 253 to the reporting entity's publicly stated targets and goals; we anticipate continuation of prior CBA messaging and objectives.

Likewise, CBA's advocacy team will keep members updated in real-time as negotiations evolve. If we can be a resource to your institution, please reach out. »

Melanie Cuevas serves as the vice president of government relations for the California Bankers Association, where her advocacy portfolio focuses mainly on issues related to cannabis, debt collection, labor and employment, political reform, privacy, and agricultural, student and military lending.

CaliforniaBanker
1303 J Street, Suite 600
Sacramento, CA 95814

This magazine is designed and published by NFR Communications | 952-835-2275