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JPMorgan's Brunei Boycott Deserves a Small Cheer

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JPMorgan Chase & Co. is the latest global bank to take a stand against Brunei after the oil-rich sultanate introduced legislation that punishes gay sex with death by stoning. The idea that financial leaders will choose their business partners on the basis of ethical principles marks a notable shift. But praise for this push onto the moral high ground should be limited.

The financial crisis left lenders with tens of billions of dollars in fines for scandals ranging from rigging to mis-selling, and substantial reputational damage. The industry's long haul to recover its position has, for the past decade, put it squarely on the receiving end of new rules and regulations, including a fresh push to abide by environmental, societal and governance standards. Concerns about the recent changes to Brunei's penal code align with this — the laws have drawn condemnation from the United Nations, criticism from the United States and outrage from the entertainment world.

So it's good to see that banks are doing their part by banning staff from staying at luxury hotels owned by Brunei's sovereign wealth fund. JPMorgan has joined the boycott, the Financial Times reported this week. At least seven others, including Deutsche Bank AG, have similar restrictions in place, according to Financial News.

That so many firms are on board with the restrictions is unprecedented, and demonstrates a renewed appetite within the industry to assert itself as an agenda-setter instead of merely a rule-taker. And even if driven by the demands of customers and millennial employees, the desire to make a stand in such fashion is welcome.

Yet the practical impact of this policy will be limited. The move may strain the finances of the hotel properties, which include the Dorchester in London and the Beverly Hills Hotel in California. But with oil back on a tear, Brunei's fiscal position probably won't change much. Nor does it appear that firms are giving up a pipeline of lucrative business. Brunei represents less than 0.03 percent of the global economy. It's not exactly the IPO or bond issuance capital of the world.

At the moment, it doesn't appear that the big lenders have the appetite to repeat this approach elsewhere.

The Cato Institute's Human Freedom Index shows a number of other, larger countries score little better than Brunei on repression, if not worse. However, financiers appear to be perfectly willing to do business in some of these locations.

One example is Saudi Arabia. Ranked 155 out of 162 for personal freedom, just last week the kingdom drew the world's top bankers and investors to a financial summit in Riyadh. In

attendance were some of the very executives who had pulled out of a conference there in the autumn after the murder of U.S.-based journalist and Saudi critic Jamal Khashoggi.

This year, conference participants expressed their excitement about the role they can play in an economy with a bright future, in the words of one finance chief.

One element of this is absolutely right: Saudi Arabia is enticing, financially. Amid a dearth of deals in Europe, Saudi Aramco's $12 billion bond sale has been a bright spot in the capital markets this year and the kingdom's economic transformation promises plenty more.

The reality is that pulling out of Saudi Arabia would be very expensive for global banks that have decades of shared business dealings, and hundreds of employees on the ground. It may not be possible for them to easily adopt the playbook of hedge fund Pharo Management, which decided in December to return about $300 million that it was managing for the kingdom's central bank.

Big finance's hard line against repressive regimes will be tested for consistency. The progress banks have made deserve praise — but lenders should recognize that standing firm on principles might be a little harder next time.