



**BANK OF ENGLAND**

Rt Hon Philip Dunne MP  
Chair, Environmental Audit Committee  
House of Commons  
London  
SW1A 0AA

**Andrew Bailey**  
Governor

8 February 2021

Dear Chair,

Thank you for your letter of 22 January 2021 and the Committee's recognition of the Bank of England's leadership on addressing the financial risks from climate change.

Climate change is a strategic priority for the Bank because, as your Committee has clearly set out, left unchecked it has the potential to cause significant damage to the UK economy and the financial system. To play our part in meeting this challenge we have put in place an ambitious domestic and international work programme, which includes: assessing banks and insurers against our supervisory expectations;<sup>1</sup> launching a comprehensive climate scenario exercise (climate stress test);<sup>2</sup> progressing an industry working group on investment in productive finance;<sup>3</sup> and playing a leading role in key international fora such as the Network for Greening the Financial System (NGFS) and the Sustainable Insurance Forum (SIF).

As your letter notes, last year the Bank also became the first central bank to publish a climate disclosure report that covered all of its operations and key policy portfolios, including those held for monetary policy purposes.<sup>4</sup> The vast majority of our monetary policy assets consist of UK government debt, which score relatively well on climate metrics compared to others in the G7. Around 2% of our monetary policy assets have been acquired via the Corporate Bond Purchase Scheme (CBPS). Consistent with the Monetary Policy Committee's (MPC) current remit, the composition of the CBPS portfolio, and therefore its carbon footprint, is broadly representative of the underlying sterling corporate bond market. Consequently, the gap your letter highlights between the carbon footprint of the CBPS and Paris Agreement goals is a reflection of the current carbon intensity of the UK corporate sector as a whole.

I have for some time been eager to adjust our approach to the CBPS to be more supportive of climate transition as you propose in your letter. In order for such changes to be made, I believe it is important that the MPC's remit should first clarify that the Committee should have regard for the Government's climate objectives in the conduct of UK monetary policy. As I told the Treasury Select Committee (TSC) on 23 November 2020, discussions with HM Treasury on this matter are taking place. And work has already begun in advance of any potential change in remit to explore how we can go about adjusting the CBPS.

Given that the CBPS accounts for around 5% of the sterling corporate bond market, and the MPC currently has no active corporate bond purchases under way, much of the impact of any change in our approach would come through our influencing the approach of investors generally, rather than the sheer

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<sup>1</sup> In July 2020, Deputy Governor Sam Woods sent a [letter](#) to the CEOs of UK banks and insurers setting out that our [supervisory expectations](#) on climate change must be fully embedded by the end of 2021.

<sup>2</sup> The Bank will launch its first climate change Biennial Exploratory Scenario (BES) exercise in June 2020.

<sup>3</sup> HM Treasury, the Bank, and the FCA have [launched](#) an industry working group on Productive Finance.

<sup>4</sup> The Bank [published](#) a climate disclosure report in line with the TCFD framework on 18 June 2020.

financial impact of our purchases. That makes it particularly important that we design our interventions in ways that create genuine incentives for companies to take meaningful actions to support the whole economy transition to net-zero emissions.

Your letter also proposes linking lending via the Covid Corporate Financing Facility (CCFF) to climate disclosures. I am not persuaded that this would be a particularly effective tool for increasing climate disclosure, since the CCFF is a short-term liquidity facility that closed to new applications at the end of last year and will shortly cease making any new loans altogether. A far more effective way to ensure climate disclosures are widely adopted is to make them mandatory, and that is why we have worked with other authorities through the UK Joint Government-Regulator taskforce on climate disclosures to publish a roadmap for mandatory disclosure requirements.<sup>5</sup>

This year will give us a unique opportunity to demonstrate the progress we have made and our ambition for the future with the UK's presidency of the G7 and hosting the UN COP26 conference. I look forward to continuing to work with the Committee on this challenge, and to reading your forthcoming report.

Yours sincerely,

Handwritten signature of Andrew Bailey in black ink.

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<sup>5</sup> In November 2020, the UK Government-Regulator Task Force on disclosure [published](#) a report and roadmap.