

Public Presentation



BANK OF ENGLAND

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The Bank of England and Climate Action

Briefing to Bank of England Agency contacts

Bank of England speakers

Will Dowson, Agent for Scotland

Sarah Breeden, Executive Sponsor for Climate Change

Zane Jamal, Climate Hub

Ryan Barrett, Climate Hub





Agenda

- 1. Financial risks and opportunities from climate change** – *Sarah Breeden*
- 2. The Bank of England's work on climate change** – *Zane Jamal and Ryan Barrett*
- 3. Q&A** – *Will Dowson*



Financial risks and opportunities from climate change

Sarah Breeden

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From Paris to the Bank of England

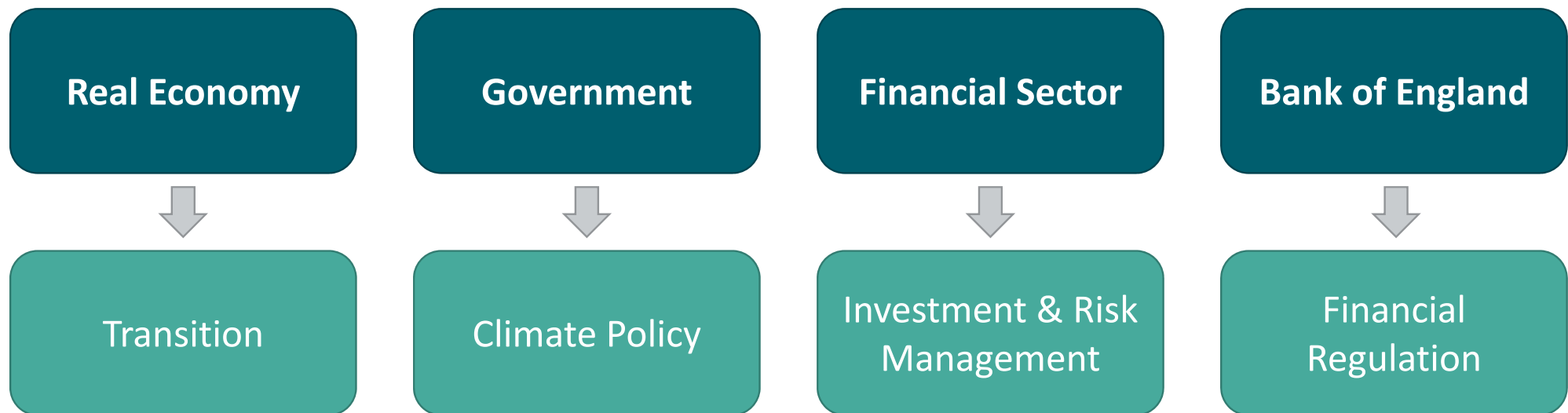
- Under the **Paris agreement**, signatory nations have committed to ensure global average temperatures stay well below 2°C, and preferably 1.5°C, above pre-industrial levels.
- Several countries, including the UK, have made further commitments to achieve **net-zero** emissions consistent with this outcome.
- Climate change does not just raise environmental questions. **We all have a role to play in driving the change that is needed** – government, public sector institutions, private sector companies, NGOs, climate scientists and individuals.
- As the central bank and financial regulator, our primary concern is the impact of climate change to the **UK economy and financial system**.

Our role

The Bank's climate objective is to *“build a UK financial system resilient to the risks from climate change and supportive of the transition to a net-zero economy”*

- Climate change creates **financial risks** through the **physical** effects of climate change and the **transition** to net-zero emissions. These financial risks are **far-reaching, foreseeable, and for action** today. As such, they are relevant to our mandate to maintain **financial stability** and to ensure the **safety and soundness** of banks and insurers.
- The contribution the Bank can make is to ensure the **financial system** is **managing effectively** the **financial risks and opportunities from climate change** it faces. This will in turn help support change in the real economy.
- However, making the transition to net-zero a reality requires action far beyond the Bank.

Piecing together the puzzle of climate action



Note: The mandate for each of the stakeholders goes further than set out on this slide. For example, the Bank also considers the impact of climate change under its remit in areas beyond financial regulation.

Inaction creates risks for businesses and the financial sector

- Our climate, the real economy, and the financial system are **fundamentally interlinked**.
- Transition will affect energy prices for all and could result in **stranded assets** across the whole economy. Orderly transition scenarios suggest **carbon prices of \$100/tonne by 2030** to limit temperature rises to 2°C. Later, more abrupt or more ambitious transitions require higher prices.
- To minimise these risks and maximise opportunities we need an **early, orderly, economy-wide transition** to **green finance** (reporting, risk) and to **finance green** (investments, innovation).

Climate Change



Real Economy

Financial System



Transition to net-zero is a commercial opportunity

- Businesses which **invest today** will benefit from the transition to a more sustainable economy as we build back better from the pandemic.
- **Consumers and investors are becoming more climate aware** and this is increasingly affecting their spending and investment decisions.
- We do not view divestment-only solutions as a practical route to net-zero. The financial sector can help **steward** businesses through an orderly **economy-wide** transition.
- **Strong demand for green investments** means companies which are able to meet relevant criteria may benefit from **cheaper costs of funds**. We are working with HM Treasury and the FCA to unlock investment in '**Productive Finance**', which could also be used to benefit the transition e.g. investment in renewable energy infrastructure.



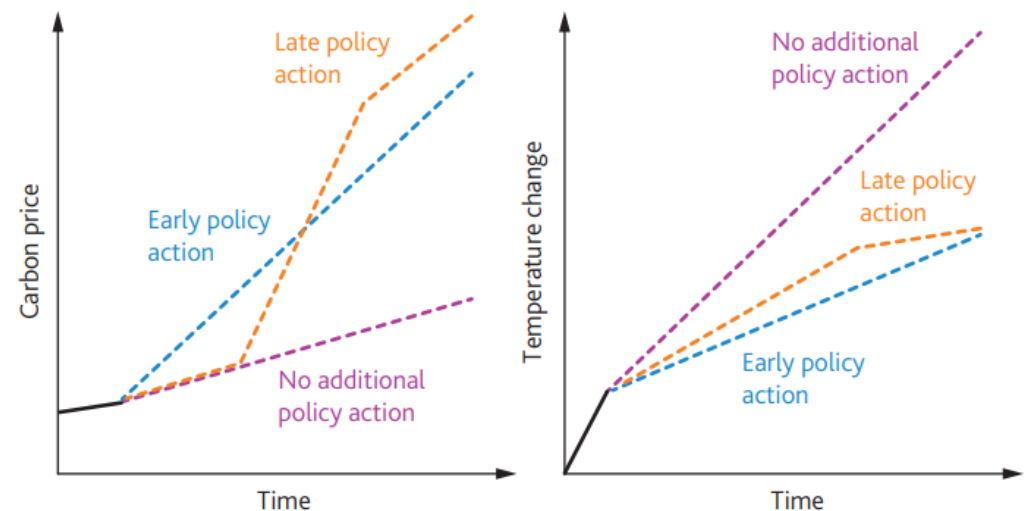
The Bank of England's work on Climate Change

Zane Jamal and Ryan Barrett

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Climate ‘Biennial Exploratory Scenario’ (CBES)

- The CBES is a bespoke exercise designed to explore the resiliency of the financial system and individual banks and insurers to three different climate scenarios.
- We will launch the CBES in **June 2021**. The key objectives for the exercise are to:
 1. Size financial exposures to climate change
 2. Understand how firms might respond (to challenges to their business models)
 3. Improve firms’ risk management
- The CBES is “exploratory” and is not intended to be used to set capital requirements.
- Participating financial firms will need to **gather climate-related information from clients**.





Supervisory expectations of banks and insurers

- In April 2019 we set **supervisory expectations** for how banks and insurers should enhance their approaches to managing the financial risks from climate change. The **deadline for ‘fully embedding’ these expectations is end 2021.**
- Banks and insurers will need to **gather information from their clients about their exposure to, and management of, climate-related risks and opportunities.**
- From a system-wide perspective, the risks from climate change are only mitigated by carbon emissions reducing to net-zero in an orderly way. Therefore, our supervisory expectations do not prescribe specific actions to be taken by banks or insurers solely on the basis of their clients’ current emissions. We expect them to act prudently and take into account all relevant factors, including their ability to **support clients in transitioning their business towards net-zero emissions.**



Climate disclosure

- The **Taskforce on Climate-related Financial Disclosure (TCFD)** has established the key framework for climate disclosure and the IFRS Foundation is consulting on establishing a board to consider **global sustainability standards**.
- **Disclosure of climate risks is critical** for consumers, businesses, investors, and policymakers to make informed decisions. Data gaps, scenario modelling complexities and uncertainty in metrics are often cited as the most difficult issues. **That is not a reason to wait. Imperfection cannot be an excuse for inaction.**
- Climate disclosure will become **mandatory in the UK by 2025**. Requirements for some companies will take effect before then. Consequently, **companies which are part of supply or investment chains may be asked to provide climate-related information even before they themselves are required to produce their own disclosure.**



Key messages

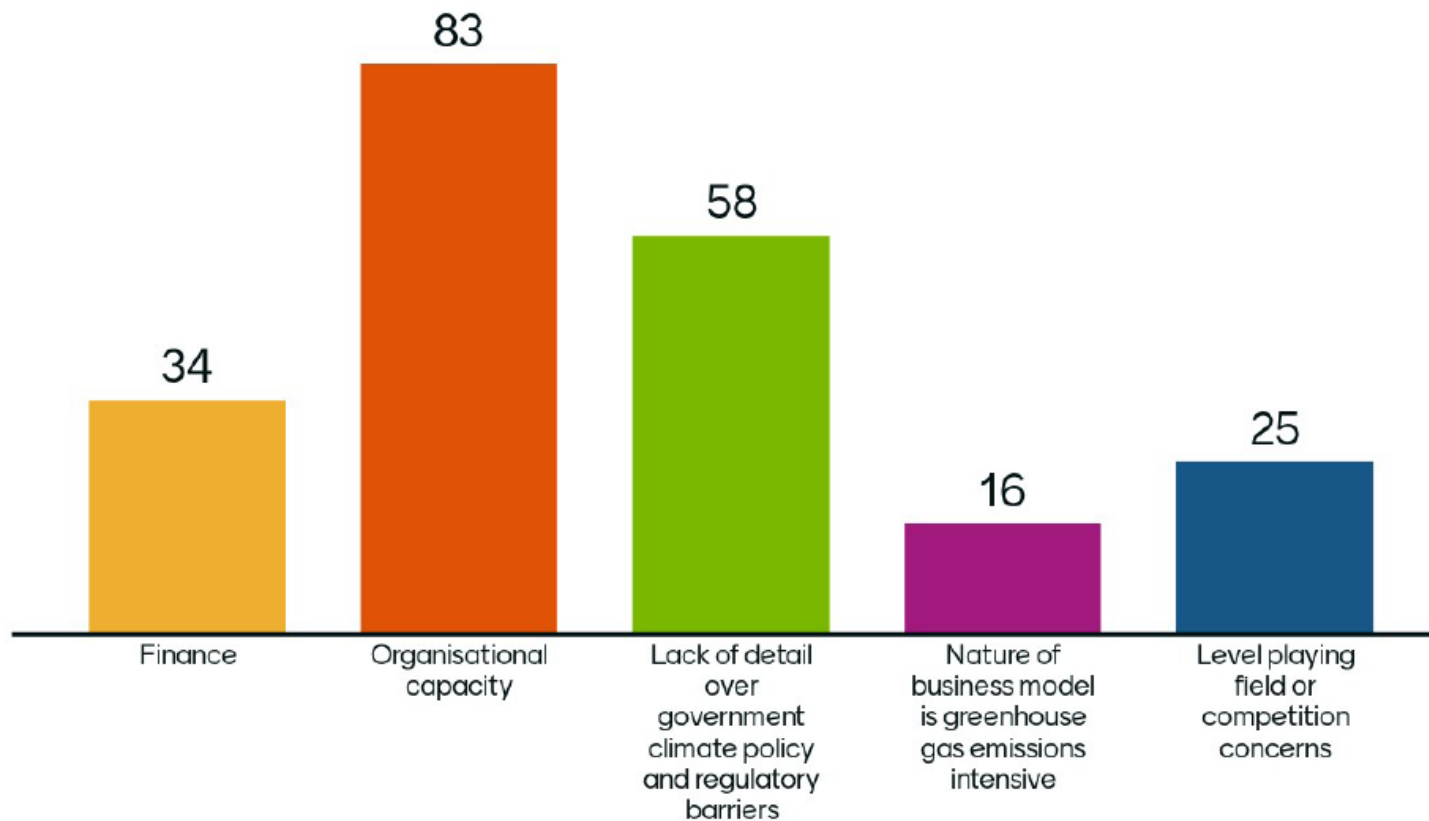
- 1** **Develop a strategy for transitioning your business towards net-zero emissions** and be prepared to explain it to your bank or insurer.
- 2** Get started on **gathering data to assess your climate risks** and **producing TCFD-aligned climate disclosures**. Do not wait for legal or regulatory requirements to force you to act and do not let imperfection be an excuse for inaction.
- 3** This is a critical decade for climate action and the UN COP26 conference in November 2021 means **all eyes are on the UK**. Take advantage of this opportunity.
- 4** **Use the many freely available resources to help you** with producing TCFD climate disclosures, undertaking scenario analysis, investing in climate risk management etc.



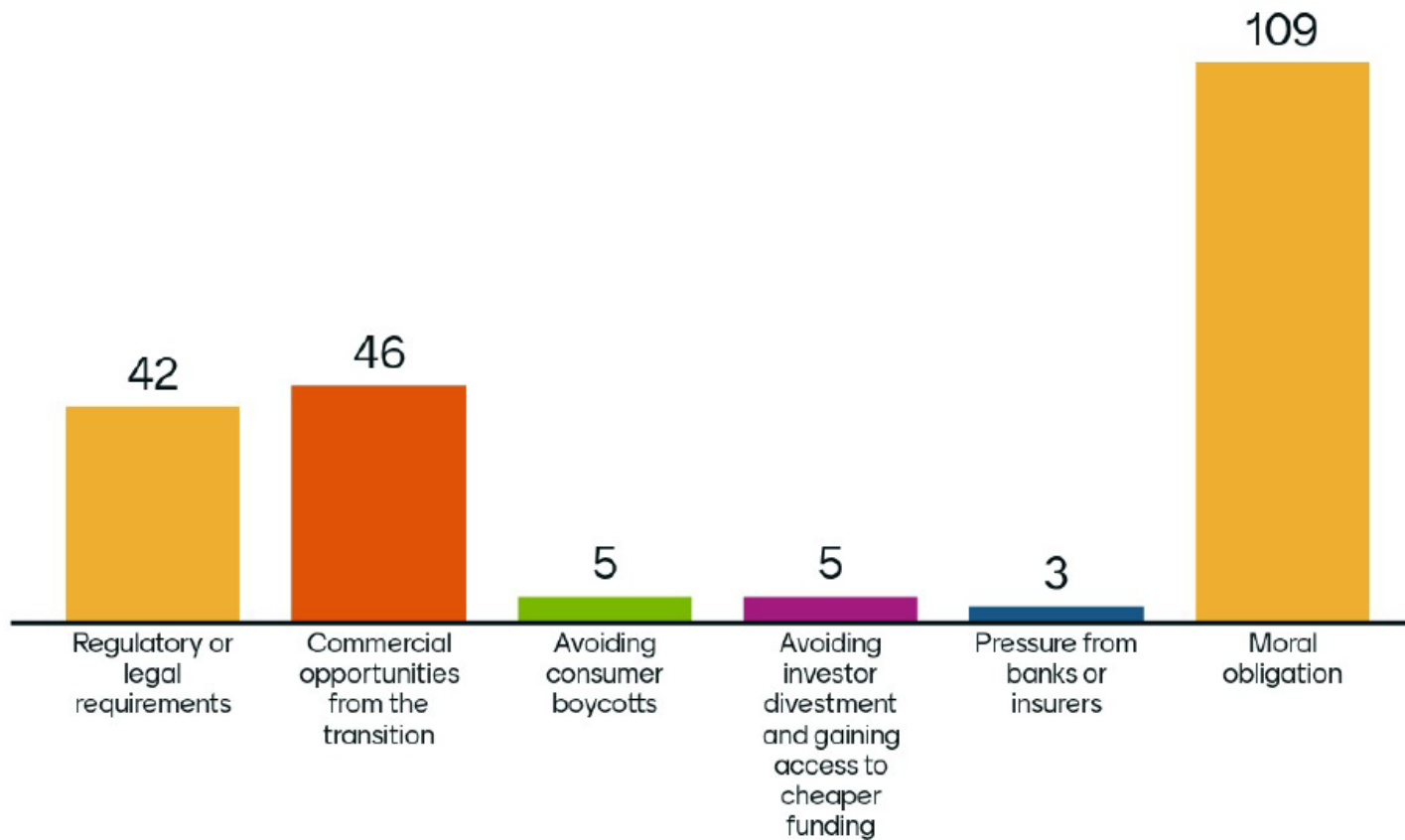
Q&A from Bank of England Agency contacts

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Question 1: Which of the following is the biggest obstacle you face in transitioning your business towards net-zero emissions?



Question 2: Which of the following is the primary motivator for your business to transition to net-zero emissions?



Annex: Useful climate resources

There are a lot of freely available resources to help both financial and non-financial firms on climate-related issues. We highlight some of these below:

- **Bank of England and Climate Change**
<https://www.bankofengland.co.uk/climate-change>
- **TCFD Knowledge Hub**
<https://www.tcfdhub.org/resource/>
- **NGFS climate reference scenarios and toolkit**
<https://www.ngfs.net/en/publications/ngfs-climate-scenarios>
- **CFRF practical guide on climate financial risk management**
<https://www.fca.org.uk/transparency/climate-financial-risk-forum>