BANK OF ENGLAND

4 March 2022

The Bank of England and Climate Change

Briefing to Bank of England Agency contacts

Bank of England speakers
Raakhi Odedra, Deputy Agent for Scotland
Sarah Breeden, Executive Sponsor for Climate Change
Zane Jamal, 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*

3. **Q&A** – *Raakhi Odedra*

Financial risks and opportunities from climate change

Sarah Breeden

From COP26 to the Bank of England

- Under the **Paris agreement**, signatory nations 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.

- At **COP26** in Glasgow, countries agreed to accelerate the phasedown of coal power and bring an end to inefficient fossil fuel subsidies. On the finance side, **financial firms with over $130tn of assets have committed to supporting net-zero**.

- 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 businesses, and individuals. But we do not have the same role. **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 objective of the Bank's work on climate change is to play a leading role in ensuring:
"the financial system, the macroeconomy, and the Bank itself are resilient to the risks from climate change and supportive of the transition to a net-zero economy"

- Climate change creates **financial risks and economic consequences** through the **physical** effects of climate change (e.g. more frequent severe floods and heat waves) and the **transition** to net-zero emissions (e.g. changes in government climate policy creating stranded assets).

- These risks and consequences can affect the **safety and soundness of the firms we regulate**, the **stability of the wider financial system**, and the **economic outlook**. This matters for the Bank's mission to promote the good of the people of the UK by maintaining monetary and financial stability.

- The biggest 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 the change that is needed 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

Government	Real Economy	Financial Sector	Bank of England
Climate Policy	Transition Business Activities & Operations	Risk Management	Monetary & Financial Stability
International Negotiations	Innovation, Research & Development	Investment & Stewardship	Financial Regulation

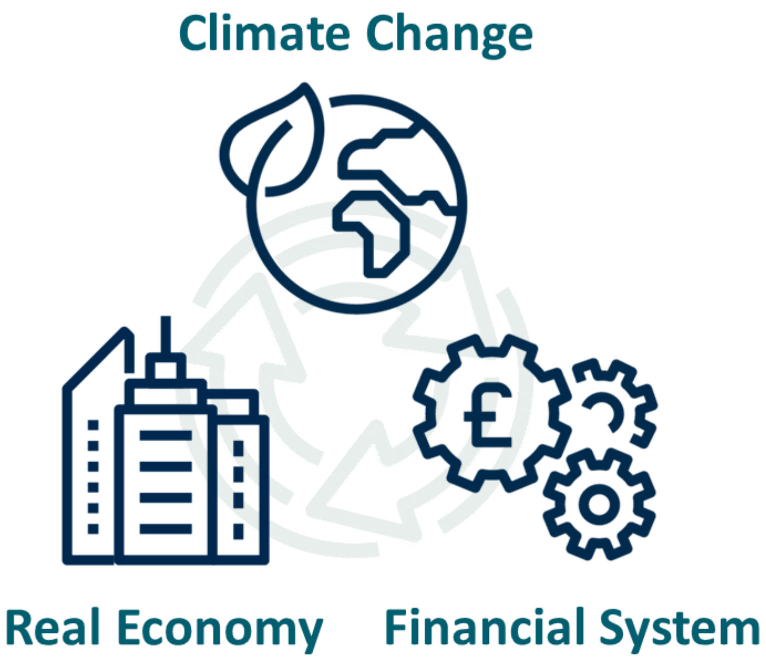
Note: The mandate for each of the stakeholders is not limited to what is set out on this slide.

Inaction creates risks for businesses and the financial sector

- Our climate, the real economy, and the financial system are **fundamentally interlinked**.

- Absent significant emissions reductions, particularly this decade, **physical risks from climate change will continue to grow**, damaging the economy and financial system.

- The transition can also create risks, for example from **stranded assets**. Orderly transition scenarios suggest **carbon prices of $100/tonne by 2030** are required 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** (disclosure, risk management) and to **finance green** (investments, innovation).

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.

- Divestment-only solutions are unlikely to be a practical route to net-zero. The financial sector can help **steward** businesses through an orderly **economy-wide** transition by providing the finance and risk management solutions needed for businesses to transition their activities.

- **Strong demand for greener 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.

Question 1: Which of the following is the greatest concern to your business? (select only one)

1. **Physical risks** (more frequent severe weather events like floods and longer-term trends in the climate such as sea-level rise)

2. **Transition risks** (changes in government climate policy, technology, and consumer preferences)

3. **Litigation risks** (either linked to physical or transition risks, for example for failing to take sufficient action to reduce emissions)

Survey results are included at the end of the presentation

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

1. Regulatory or legal requirements
2. Commercial opportunities from the transition for your products and services
3. Mitigating climate-related physical and transition risks to your business
4. Pressure from investors, customers and other stakeholders
5. Access to cheaper funding
6. Moral obligation

Survey results are included at the end of the presentation

The Bank of England’s work on Climate Change

Zane Jamal

Highlights for 2021

1. We worked with international partners and climate scientists to publish freely available **climate scenarios** that bring together climate policy and temperature pathways over decades with their financial and macroeconomic consequences. Using scenarios can **help policymakers and businesses navigate through the uncertainty** to assess resilience against a range of outcomes, improve risk management and develop strategies.

2. We set a **deadline of end 2021 for UK banks and insurers to embed our expectations on climate risk management** and will be assessing them against that this year. The largest banks and insurers were also put through a **climate scenario exercise**, for which we expect to publish results in May 2022.

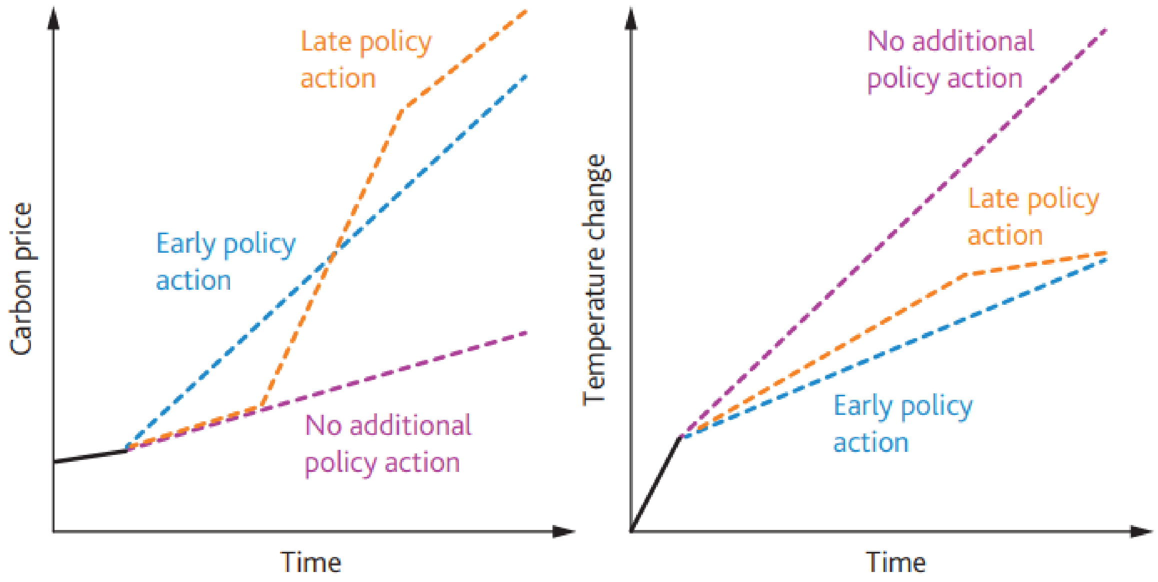
3. We have helped drive **international engagement on climate change**. Supporting the government in its G7 presidency and hosting of COP26, while also advancing discussions at international finance fora such as the Network for Greening the Financial System (NGFS).

Climate 'Biennial Exploratory Scenario' (CBES) exercise

- The CBES is designed to explore the resiliency of the financial system and major UK banks and insurers to three different climate scenarios.

- We launched the CBES in **June 2021** and expect to publish results in **May 2022**. The key objectives for the exercise are to:

  1. Size financial exposures to climate change
  2. Understand how banks and insurers might respond to challenges to their business models
  3. Improve firms' risk management



- The CBES is "exploratory" and is not being used to set capital requirements.

- Participating banks and insurers you deal with may have engaged with you or will do in the coming years to understand how your business and operations might be affected by climate change.

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 embedding these expectations as far as possible was end 2021**. In 2022 we will be shifting gears from assessing implementation to actively supervising against our expectations.

- To effectively manage their risks and set their strategies, banks and insurers will need to **gather information from their clients about their exposure to, and management of, climate-related risks and opportunities**.

- We will be exploring whether changes need to be made to the **regulatory capital framework** for banks and insurers to better account for climate-related financial risks. However, we have been clear that capital requirements are not a substitute for government climate policy that is needed to drive the economy-wide transition.

Climate disclosure

- **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. **However, disclosures are still possible and desirable even with these challenges.** There are many freely available guides and tools to support companies in making disclosures.

- The **Taskforce on Climate-related Financial Disclosure (TCFD)** has established the key framework for climate disclosure and the IFRS Foundation has established the International Sustainability Standards Board to develop **global sustainability reporting standards**.

- In the UK the government has published a roadmap to its Sustainability Disclosure Requirements (SDR). 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. **Explore how your business will be affected by climate change and the transition. Take this into account when developing your strategy** and be prepared to explain it to your bank, insurer, and other stakeholders.

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 wait for perfection in data or modelling techniques.

3. This is a critical decade for climate action. **Investors and customers are increasingly rewarding companies which are on the front foot**.

4. Climate change can be a complex topic. **Use the many freely available resources to help you** with producing TCFD climate disclosures, undertaking scenario analysis, investing in climate risk management etc.

Results from our earlier survey questions

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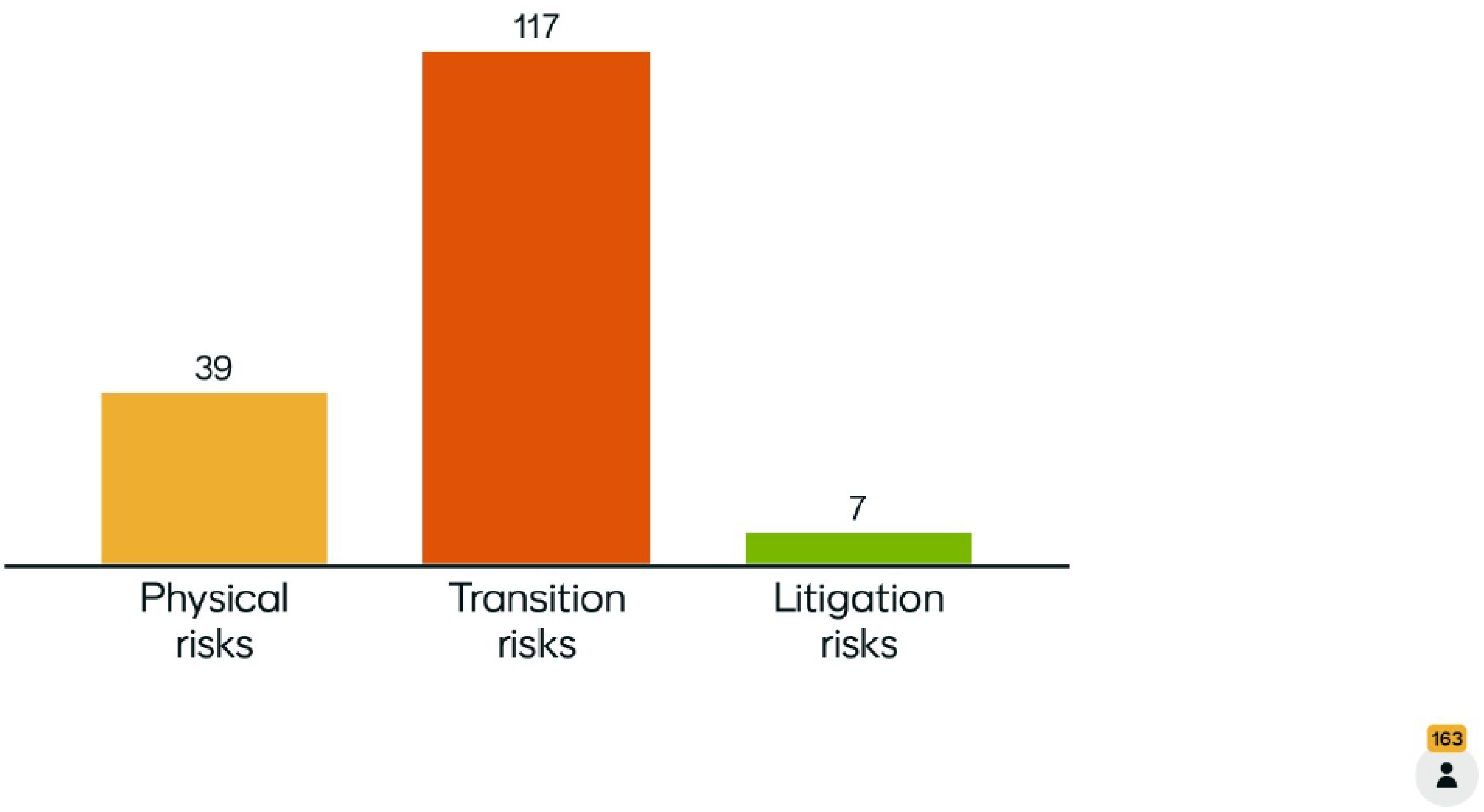

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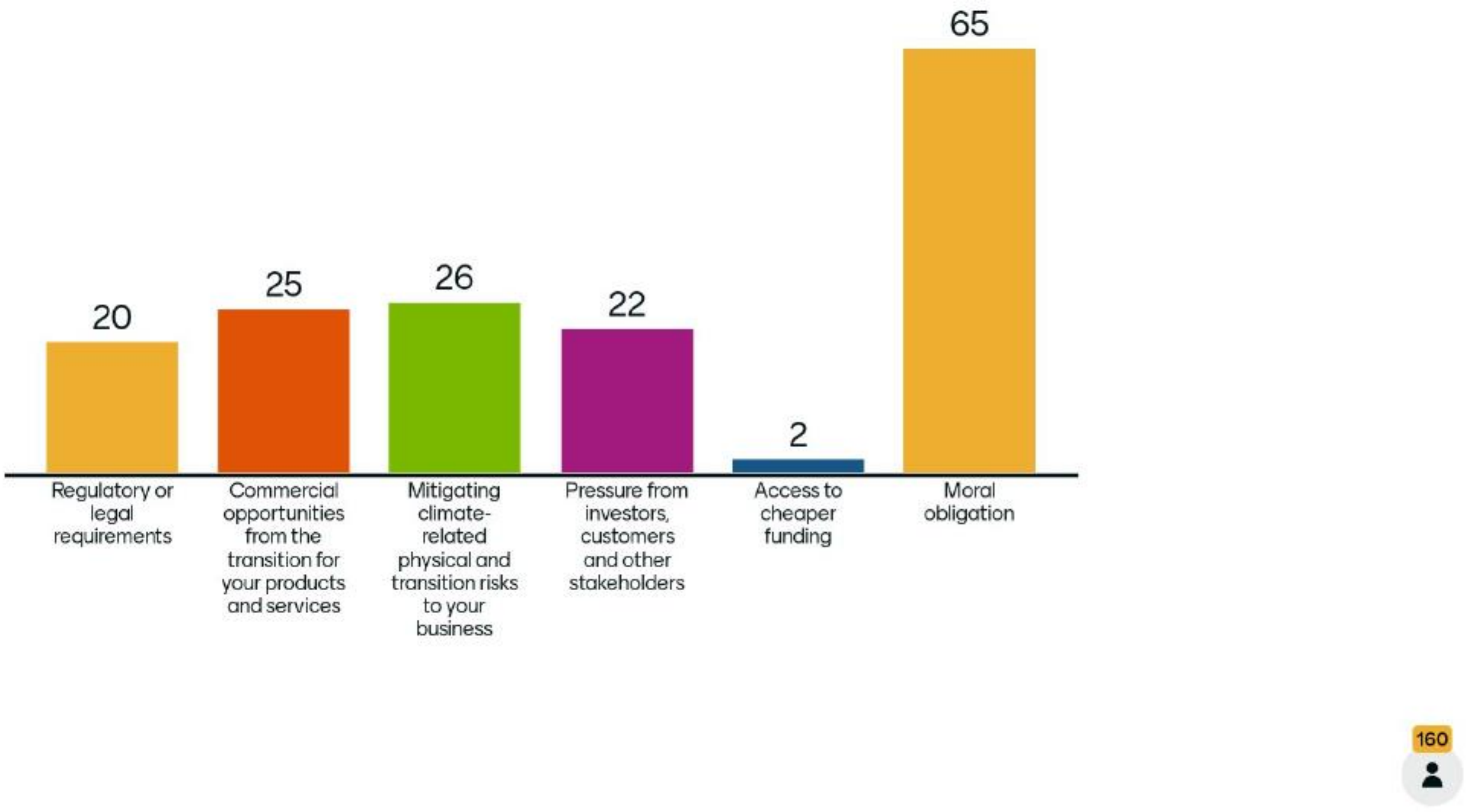

Q&A from Bank of England Agency contacts

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 scenarios and toolkit**
  https://www.ngfs.net/ngfs-scenarios-portal/

- **CFRF practical guide on climate financial risk management**
  https://www.fca.org.uk/transparency/climate-financial-risk-forum