



News release

18 December 2019

Bank of England consults on its proposals for stress testing the financial stability implications of climate change

Today the Bank of England ('the Bank') has published a discussion paper which sets out its proposed framework for the 2021 Biennial Exploratory Scenario ('BES') exercise. The objective of the BES is to test the resilience of the largest banks and insurers ('firms') to the physical and transition risks associated with different possible climate scenarios, and the financial system's exposure more broadly to climate-related risk.

Whilst climate-related risks will materialise over decades, actions today will affect the size of those future risks. It is therefore important that firms, and other stakeholders such as the Bank, continue to develop innovative approaches to measure climate-related risks before it is too late to ensure resilience to them. The BES will use exploratory scenarios to size these future risks and to explore how firms might respond to them materialising, rather than testing firms' capital adequacy.

The key features of the BES are:

- 1) Multiple Scenarios that cover climate as well as macro-variables:** to test the resilience of the UK's financial system against the physical and transition risks in three distinct climate scenarios. These range from taking early, late and no additional policy action to meet global climate goals.
- 2) Broader participation:** both banks and insurers are exposed to climate-related risks, and the action of one will spill over to affect the other. For insurers, this exercise builds on the scenarios developed for this year's insurance stress test.
- 3) Longer time horizon:** is needed as climate-related risks crystallise over a much longer timeframe than conventional risks. The BES proposes a modelling horizon of 30 years.
- 4) Counterparty-level modelling:** a bottom up, granular analysis of counterparties' business models split by geographies and sectors is proposed to accurately capture the exposure to climate-related risks.
- 5) Output:** the Bank will disclose aggregate results of the financial sector's resilience to climate-related risk rather than individual firms.

The Governor Mark Carney said: "The BES is a pioneering exercise, which builds on the considerable progress in addressing climate related risks that has already been made by firms, central banks and regulators. Climate change will affect the value of virtually every financial asset; the BES will help ensure the core of our financial system is resilient to those changes."

Sarah Breeden the Executive Director sponsor for climate change said “None of us can know exactly how climate change will unfold, but we do know that it will create risks to the financial system. I am excited that this ground-breaking exercise will for the first time allow us to quantify this risk and so determine the actions we need to take today if we are to minimise these future risks.”

The Bank is consulting on the design of the exercise and welcomes feedback on the feasibility and the robustness of these proposals from firms, their counterparties, climate scientists, economists and other industry experts by 18 March 2020. The final BES framework will be published in the second half of 2020 and the results of the exercise will be published in 2021.

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Notes to Editors

- 1 [The 2021 biennial exploratory scenario on the financial risks from climate change Discussion Paper](#)
- 2 [Insurance Stress Test 2019](#)
- 3 [Huw Van Steenis “Future of Finance” review: June 2019](#)
- 4 [Bank of England response to the Future of Finance review June 2019.](#)
- 5 [Supervisory Statement 3/19](#): Enhancing bank’s and insurers’ approaches to managing the financial risks of climate change. April 2019
- 6 [Governor Mark Carney speech at Mansion House](#): “Enable, empower, ensure: a new finance for the new economy”. June 2019
- 7 Governor Mark Carney [“Remarks given at a panel to launch the third annual America’s Pledge report, at the 25th Annual Conference of the Parties”](#)
- 8 [Bank of England work on climate change](#)