Response by the Carbon Tracker Initiative and Sandbag to the HM Treasury Technical Consultation on the Bank of England bill[1]

11th September 2015

About the **Carbon Tracker Initiative**

Carbon Tracker is a team of financial, energy and legal experts with a ground breaking approach to limiting future greenhouse gas emissions. We have the technical knowledge, connections and reach to get inside the mind-set of the global financial community and effect change on a global scale. We are a non-profit, independent organisation, free from the commercial constraints of mainstream analysts and able to set our own research agenda.
http://www.carbontracker.org/

About **Sandbag**

Sandbag is a UK-based not-for-profit think tank conducting research and campaigning for environmentally effective climate policies.
Our research focus includes reform of the EU Emissions Trading Scheme, the EU 2020 and 2030 climate & energy packages, Carbon Capture & Storage/Utilisation, and the phase-out of old coal in Europe.
https://sandbag.org.uk

[1] Open Consultation: Bank of England bill. Published 21st July.
https://www.gov.uk/government/consultations/bank-of-england-bill-technical-consultation

Question 1

Do you have any views on the government's proposals to end the PRA's status as a subsidiary and integrate it within the Bank, while retaining its independence in making rules, policies and supervisory decisions?

Response

As the Bank of England's One Bank Research Agenda notes, climate change poses risks to the financial system.[2] These risks exist in at least two senses: the physical risks associated with warming, which have implications for insurance firms that may not have properly assessed those risks, and transition risks associated with changes in government policy in order to encourage a low-carbon transition, which may leave assets stranded.

The Bank of England should be evaluating the implications of climate change and the associated financial risks, which may be particularly acute for the UK's economy, given the large size of our financial sector relative to GDP.

We would like to see the Bank regulating deposit takers, insurers and large investment firms in a way that is informed by a proper assessment of the financial risks of climate change.

We therefore welcome the move towards a more integrated and co-ordinated approach to financial regulation, with parts of the Bank that are concerned with the bigger picture working more closely with parts of the Bank which will be concerned with the activities of individual firms.

In the Bill, we would welcome measures that set out clearly how the PRC will work closely with the MPC and FPC to ensure that policy reflects a good understanding of long-term fundamental change. This requires that the PRA and other committees of the Bank are given a remit to consider risks with a much longer time horizon, such as the physical risks of climate change and the risks created by policy changes as part of a transition to a more low-carbon economy.

We would also welcome measures to allow the Bank to increase the requirements for firms to undertake reporting and disclosure as to their own exposure to the financial risks of climate change.

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[2] One Bank Research Agenda, Discussion Paper, Feb 2015. (Accessed 8.09.15: http://www.bankofengland.co.uk/research/Documents/onebank/discussion.pdf)

Question 4

Do you have any views on the changes the government intends to make to the MPC and FPC?

Response

The FPC should be monitoring and assessing long-term fundamental change, and the associated risks. When asked, previously, to do this by DEFRA, the FPC recorded in its minutes of its meeting on 7th March 2015 that:

"the likely impact on the macroeconomy and any associated financial stability risks would depend on the speed of transition to a low-carbon economy. The Committee's central expectation was that the risks to financial stability were likely to be beyond the FPC's typical policy horizon."

Given that the FPC, the Governor and the Deputy Head of the PRA have all stated that climate change does pose a risk to the financial system, we believe the government should include measures to equip the FPC to make an assessment of the risks of climate change. We would welcome measures that ensure that the FPC's policy horizon does include the risks of climate change, as well as other long-term fundamental trends.

We would welcome measures which would enable the FPC to undertake stress testing of the economy based on different scenarios, in terms of differing degrees of warming, and future potential government policy changes. This would enable the Bank to make a proper assessment of the risks to the financial system of climate change, and to take action to mitigate those risks.