

8th October 2021

Andrew Bailey
Governor
Bank of England
Threadneedle Street
London EC2R 8AH

Dear Mr Bailey,

The Bank of England must mandate banks to disclose climate action plans and provision additional capital against GHG emissions-intensive activities whilst reflecting the same climate principles in monetary policy

I write as the Chair of the Children's Investment Fund Foundation (CIFF), one of the world's largest grant funders of climate change action. A climate-safe world is vital for a healthy and sustainable future for children. As stated by UNICEFⁱ, the climate crisis is putting the lives of 1 billion children at severe risk. In 2020 CIFF disbursed over \$150mn of climate grants, including to a wide range of NGOs working on finance.

As the Bank of England's (BoE) Governor you have taken important initial steps to address the threat of climate change, in line with updated mandates from HM Treasury. The BoE has brought forward serious proposals to adjust its Corporate Bond Purchase Scheme to foster rather than hinder climate alignment of the real economy.¹ It must implement these quickly and follow suit in its regulation of banks, building on the basic stress tests currently being carried out.

As highlighted recently by the International Energy Agency (IEA)ⁱⁱ, to meet the goals of the Paris Agreement, investments in new fossil fuels must stop immediately and the share of fossil fuels in energy supply has to fall steeply. The UN Production Gap Reportⁱⁱⁱ underlines that this decline must start now: global fossil fuel production should fall by 6% each year from 2020 to 2030.

However, not only are UK banks continuing to channel financing to fossil fuels, they are failing to provide basic levels of transparency about the extent of the emissions they are financing. Since the Paris agreement, UK banks have provided more than \$60bn per year of fossil fuel financing, with Barclays ranking 7th globally.^{iv} 115 investors with assets under management (AUM) of \$4.2trn have written to eight UK banks^v setting out expectations for coal phase-out announcements by COP26 and short-term 5-year targets covering all financing by their 2022 AGMs.

The BoE and PRA should not leave the orderly climate transition of the banking sector to NGOs and investors and must take the following immediate steps:

1. Mandate banks to disclose the absolute carbon emissions of their loan book and underwriting business by sector. Actual data rather than estimates requires all large corporate clients to disclose the full scope of their emissions. PCAF or an equivalent framework should be used. This disclosure must take place ahead of the rollout of full TCFD reporting in the UK, we cannot afford several years of further delay.
2. Set regulatory expectations for banks to set and disclose 5-year emissions reduction targets for their loan book and underwriting and provide a Climate Action Plan for achieving those targets^{vi}. The PRA cannot supervise an orderly transition without this information.

¹ <https://www.bankofengland.co.uk/paper/2021/options-for-greening-the-bank-of-englands-corporate-bond-purchase-scheme>

3. Mandate banks to work with all large clients to develop and finance their own 5-year Climate Action Plans. Without these corporate plans in place banks will not be able to transition their own businesses^{vii}
4. Impose additional systemic risk buffer capital requirements to ensure that all lending for fossil fuel expansion is treated as equivalent to equity exposure^{viii} to reflect the risky nature of this activity per IEA.
5. In line with the G7 decision to end coal financing^{ix}, take a lead within the BCBS to accelerate work on pillar 1 capital requirements for all coal-related lending, which is incompatible with the Paris agreement. There is clear precedent for rapid action given recent BCBS guidance on cryptocurrencies requiring 1250% risk weightings.
6. Accelerate the implementation of proposed changes to the BoE Corporate Bond Purchase Scheme, holding only assets issued by companies aligned with an orderly transition in line with the Paris agreement. The Climate Bonds Initiative has issued a 'Transition Bond' framework which will link to investor-backed initiatives such as the CA100+ net zero company benchmark and the ACT framework, providing the basis for assessing the forward-looking Climate Action Plans of major companies.
7. Collateral eligibility rules for all BoE facilities should be adjusted in the same way to allow only assets backed by companies who are delivering on credible 5-year Climate Action Plans.
8. Apply the same focus on the disclosure and performance of Climate Action Plans to foreign exchange reserve management, including sovereign debt and money market funds.
9. The BoE should work with HM Treasury to develop a framework for green and transition-aligned LTROs and green supporting factors, establishing them as a key feature of securing and orderly climate transition^x.

Whilst individual banks can seek to reduce their own exposure to transition risk in the short-term, without an end to fossil fuel financing and the delivery of Climate Action Plans on an economy-wide basis, the financial system as a whole will be increasingly vulnerable. The financial sector cannot be left to manage its own role in the climate transition. Current initiatives such as the UN Principles for Responsible Banking, and the newly established Net Zero Banking alliance do not cover all banks, and do not mandate full disclosure, credible action plans and an end to risky fossil fuel lending. 2050 Net Zero commitments alone are meaningless.

We would welcome the opportunity to meet you and discuss the BoE's response to climate change, and how civil society can support this critical agenda.

Yours sincerely,



Sir Christopher Hohn

Chairman CIFF

CC: Sam Woods, Chair, PRA; Sarah Breeden, Executive Director for UK Deposit Takers Supervision; Huw Pill, Chief Economist

ⁱ <https://www.unicef.org/media/105376/file/UNICEF-climate-crisis-child-rights-crisis.pdf>

ⁱⁱ <https://www.iea.org/reports/net-zero-by-2050>

ⁱⁱⁱ https://www.unep.org/resources/report/production-gap-2020?_cf_chl_managed_tk__=pmd_6cd6b01716cb7198b38bac5dde3f12400b3cb4e8-1627847715-0-gqNtZGzNAw2jcnBszQeO

^{iv} <https://www.ran.org/bankingonclimatechaos2021/>

^v <https://shareaction.org/investors-call-on-banks-to-strengthen-climate-ambitions-before-cop26/>

^{vi} <https://sayonclimate.org/climate-action-plans/>

^{vii} 53 global investment firms representing \$14trn of AUM have set out their expectations for all companies to disclose climate action plans including 5-year targets: <https://www.iigcc.org/news/usd-14-trillion-investors-call-for-consistency-on-corporate-net-zero-alignment-plans/>

^{viii} <https://www.finance-watch.org/publication/breaking-the-climate-finance-doom-loop/>

^{ix} https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/988551/g7-climate-environment-communicue.pdf

^x <https://www.bankofengland.co.uk/-/media/boe/files/letter/2021/march/2021-mpc-remit-letter.pdf>