The Bank of England and Green Climate Policy

The Bank of England (the "BoE") has made strides in recent years towards using its monetary and financial powers to tackle the problem of climate change.

Regulatory Action

The PRA, or the Prudential Regulation Authority, an arm of the BoE, is responsible for regulation and supervision of over one thousand banks, credit unions, insurers, and investment firms in the country.

The PRA's recent actions to target claim change have included planning for upcoming "climate stress tests" that will test the financial system's hypothetical ability to withstand negative climate shocks, mirroring the stress tests central banks use to test firms' abilities to withstand capital shocks that were implemented following the 2008 financial crisis. These tests, however, will only be published in the aggregate, and there will not be a penalty for firms passing or failing the tests.

The PRA has also issued Supervisory Statements outlining expectations for banks and insurers with regards to the financial risks from climate change. These include laying out risks from climate change and strategic approaches for managing climate change risk expected of supervised firms. The Supervisory Statements also recommended that regulated firms consider disclosure of climate risks.

"The Bank is at risk of creating a moral hazard by purchasing high-carbon bonds and providing finance to companies in high-carbon sectors without placing any conditions on them to make a transition to net zero."

-The Environmental Audit Committee, writing in Jan 2021 to the Head of the BoE

Can the BoE Undertake Targeted "Green" Asset Purchase Schemes?

The Bank of England's quantitative easing program, increased recently due to the coronavirus pandemic, has not as yet updated its parameters to discourage bond purchases of companies that contribute to climate change, or encourage purchases of companies that are climate-positive. This is in contrast to the European Union's ECB, which recently confirmed that it was reviewing options to include fighting climate change as part of its operations within its asset purchase program.

The BoE's Monetary Policy Committee, or MPC, which consists of a total of 9 members, has operational responsibility for the country's monetary policy to the committee as an independent body. The MPC has the ability to vote on an asset purchase program as it sees fit and necessary to "formulate monetary policy" -- a broad charter, coupled with the overarching aims of the BoE to "maintain price stability and, subject to that, to support the government's economic policy."

The MPC could argue that the PRA's findings discussed above, combined with government studies and treaties such as the Paris Accords, give the MPC power to use monetary policy to prepare for potential financial impacts of climate change through "maintaining price stability." The MPC could also argue it has the statutory authority to implement monetary policy objectives because it is influenced by the "government's economic policy." Therefore, if parliament were to make its objectives clear regarding use of monetary policy and climate change, and HM Treasury were to transmit those objectives to the MPC, from a statutory perspective the MPC is obligated to take such a consideration into account when making its monetary policy. It remains to be seen whether the BoE will be following the ECB's lead in considering climate impact when undertaking its asset purchase scheme.