



BANK OF ENGLAND

Mark Carney
Governor

Joan Walley MP
Environmental Audit Committee
14 Tothill Street
House of Commons
London
SW1H 9NB

8 July 2014

Dear Ms Walley

I am writing in response to the Environmental Audit Committee's Twelfth Report on Green Finance, which recommended that 'the Financial Policy Committee of the Bank of England should regularly consult with the Committee on Climate Change to help it monitor the risks to financial stability associated with a carbon bubble'.

The Financial Policy Committee (FPC) acknowledges the important issues your report raised. As you are aware, the Bank said in February 2012 that it had not identified significant risks to financial stability from a carbon bubble. We said that we would monitor the issue through our regular gathering of information on financial stability risks.

In the period since February 2012 I note that risks to financial stability from a potential mis-pricing of carbon assets have not been raised by respondents to the Bank's bi-annual Systemic Risk Survey, and have not been cited as a concern by market contacts in the course of the Bank's regular market intelligence gathering.

The FPC's current assessment of risks to financial stability was set out in the latest Financial Stability Report which was published on 26 June. As part of its work, the FPC has set out three medium-term priorities on which it will focus over the next twelve to eighteen months: the medium-term capital framework, ending 'too-big-to-fail', and ensuring diverse and resilient sources of market-based finance.

Notwithstanding these priorities the FPC will continue to monitor a range of threats in its regular risk assessment, and will seek to discuss with the Committee on Climate Change if its assessment of risks associated with a carbon bubble changes.

You may also wish to be aware that in March 2014 the Prudential Regulation Authority (PRA) accepted an invitation from the Department for Rural Affairs (Defra) to produce a report on climate change issues that could affect the insurance industry.

The report will look at the potential impact of climate change on the PRA's objectives and discuss the role of the regulator in supporting adaptation to climate change. The PRA will take this work forwards over the course of 2014, ahead of a final report next year. I will ensure that the PRA keeps you updated as work progresses, and I expect that the FPC will also take account of the report's findings in its assessment of the risks to financial stability.

With best wishes.