30 October 2014

Dear Ms. Walley,

Thank you for your letter of 16 October, in which you ask for a progress update on the Bank’s work in relation to assessing and mitigating possible risks from climate change, following on from my letter of 8 July. Allow me to address two issues in turn: an update on the Bank’s work on ‘stranded assets; and our response to the invitation from the Department for Environment, Food and Rural Affairs to produce a report on climate change issues that could affect the insurance industry.

Stranded Assets

As part of my opening remarks at a World Bank seminar on Integrated Reporting, as referred to in your letter, I made reference to analysis suggesting that the majority of proven coal, oil and gas reserves may be considered ‘unburnable’ if global temperatures increases are to be limited to 2 degrees Celsius. I also referenced, on the basis of this analysis, how this may lead to ‘stranded carbon’.

These remarks were made in the context of the benefits of integrated reporting in highlighting the costs and benefits of tomorrow to inform the investment and credit decisions of today.

In the period following my previous letter of 8 July 2014, the subject of ‘stranded assets’ has been discussed, amongst other issues, during the first phase of work informing our response to the Department for Environment, Food, and Rural Affairs. In light of these discussions, we will be deepening and widening our inquiry into the topic, and I expect the Financial Policy Committee to also consider this issue as part of its regular horizon scanning work on financial stability risks.

Update on response to Defra on Climate Change Adaptation Reporting.

As outlined in our recent letter to a selection of PRA regulated insurance firms, the PRA’s report to Defra will seek to consider two core questions: the impact of climate change on the PRA’s objectives (with a focus on insurance), and the role of insurance regulation in supporting adaptation to climate change.
We are currently reviewing responses from the first phase of this work. Based on this review, we expect the next phase of our work to explore a number of issues in more depth, working in conjunction with regulated firms and wider stakeholders. Our target date for sending a first draft of the report to Defra remains July 2015.

I look forward to learning more about the Environmental Audit Committee’s own inquiry in this area.

With best wishes,

[Signature]