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Climate needs to go back into the Treasury's remit letters

The remit letters to be sent by the Chancellor on November 14 to the Bank of England and Financial Conduct Authority are a critical opportunity to re-establish that these bodies should have regard for the Government's climate and environmental ambitions, write Irene Claeys, Ira Poensgen, David Barmes and Agnieszka Smolenska.



At least once a year, the Chancellor issues “remit letters” to the Bank of England and other bodies responsible for the UK’s financial market oversight. These letters outline the priorities that the Government would like these institutions to consider in the pursuit of their respective mandates.

In last week’s Autumn Budget, Chancellor Rachel Reeves confirmed that on November 14 she will be sending new remit letters to the Bank of England’s Monetary Policy Committee (MPC), Financial Policy Committee (FPC), and Prudential Regulation Committee (PRC), along with the Financial Conduct Authority (FCA). This will coincide with Reeves’s much-anticipated speech at Mansion House – as well as COP29’s Finance Day.



Governor Andrew Bailey told the House of Lords Economic Affairs Committee that when climate change was removed

from the remit letter to the FPC last year, the Bank reduced its climate-related resources.



These letters are a critical opportunity to re-establish the need for these bodies to play their part in delivering the Government's climate and environmental ambitions. Managing climate and environmental risks already falls squarely within the Bank's core mandate, as previous work by [LSE's Grantham Research Institute and CETEx](#) have consistently demonstrated. However, the remit letters are a key tool for focusing attention and resources. Governor Andrew Bailey told the House of Lords [Economic Affairs Committee](#) that when climate change was removed from the remit letter to the FPC last year, the Bank reduced its climate-related resources, shifting focus to operational and cyber risks.

In a context where emissions are still on the rise and global efforts to transition to net zero and climate resilience are facing heightened uncertainty and geopolitical challenges, it is more important than ever to ensure close alignment between the UK Government and its arm's-length institutions as they work to navigate and accelerate the transition. Reeves's forthcoming speech could not be a more timely opportunity to address this issue. Recent weeks have seen significant steps in the articulation of the UK's approach to sustainable finance with the finalisation of the work of the [Transition Plan Taskforce \(TPT\)](#) and publication of the [Transition Finance Market Review \(TFMR\)](#) – but both are yet to be consistently woven into government policy.



Across the different remit letters Reeves should strengthen the language on net zero and environmental sustainability.



To firmly demonstrate its commitment to net zero and a greener UK, the new Labour Government must clearly restate the importance of climate change for all three policy committees at the Bank of England, in addition to providing further guidance on the Financial Conduct Authority's priorities.

What should be asked of the Bank and the FCA?

Across the different remit letters Reeves should strengthen the language on net zero and environmental sustainability. For more ambitious engagement, the Chancellor should ask the Bank to respond with a renewed transition plan outlining how it intends to incorporate these priorities across the Bank's analysis and policies. This strategy should cover the core monetary, micro and macroprudential functions of the Bank and form the basis of further engagement with the financial sector and other stakeholders. The Bank should regularly report against this plan to ensure that its policies remain fit for purpose for the medium- and long-term challenges that are likely to arise in the context of the transition.



Reeves should likewise encourage the Financial Conduct Authority to have regard to the Government's climate objectives.



Individual remit letters should provide further guidance enabling the Bank to put in place specific policies. For the MPC, these include adjustments to the collateral framework and consideration of a Green Term Funding Scheme that offers cheap funding for lending to green projects, which would also support price stability. For the FPC and PRC, the Chancellor should request that these committees explore further integration of climate and environmental considerations in prudential policy. At the level of the individual institution this could include developing a dedicated prudential treatment of transition risks, e.g. through assessments of banks' and insurers' transition plans. At the system level, there is a growing case for using macroprudential policy tools to address long-term financial stability concerns related to the transition.

Reeves should likewise encourage the FCA to have regard to the Government's climate objectives. The regulator has a critical role to play in ensuring financial markets can adequately respond to sustainability-related risks and opportunities, including by fostering trust by strengthening the credibility of relevant elements of the financial market infrastructure such as ESG ratings and verification services.



The overall goal should be to encourage the Bank of England and FCA to continue to meaningfully engage with the Government, the Climate Change Committee and other relevant bodies within the UK and globally.



The FCA has taken important steps in recent years to drive this agenda forward, including through the introduction of a labelling regime, work on an anti-greenwashing rule and its support for the TPT. However, more work is needed to create a strong regulatory ecosystem that protects the integrity of any “green” or “transition” claims, truly safeguards against greenwashing and ensures that investors and consumers have access to material information so that private finance meaningfully supports the Government’s transition objectives. As the Transition Finance Market Review concludes, key next steps should include the introduction of mandatory requirements for financial and non-financial corporates to disclose their transition plans in line with the International Sustainable Standards Board and TPT Disclosure Framework.

Engagement opportunity for the Bank of England and the FCA

While the individual remit letters are an opportunity for the Chancellor to provide tailored guidance, the overall goal should be to encourage the Bank of England and FCA to continue to meaningfully engage with the Government, the Climate Change Committee and other relevant bodies within the UK and globally. Only a systems approach can ensure that all actors pursue mutually reinforcing action that supports the conditions for accelerated sustainability transition in the UK and beyond.

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