

Summary

- In his pre-commencement hearing, Bank of England governor **Andrew Bailey told the TSC that he would take forward decarbonisation of the central bank's corporate QE programme as "a priority"**.
- The Bank of England has since announced a further £10bn of corporate bond purchases, but **there is no indication that the new governor has taken forward his pledge to decarbonise the Bank's corporate QE programme.**
- Among the bonds currently eligible for purchase under the Bank's programme are those issued by fossil fuel companies such as Shell, BP and Total.
- The BoE expects to publish an update to the list of corporate bonds eligible for purchase in mid-April. **The Treasury and the Bank of England must take this opportunity to realign corporate QE with the government's climate objectives,** excluding bonds from companies whose business models are incompatible with the Paris Agreement, such as those involved in fossil fuel extraction.
- The Treasury and the Bank of England are also bailing out big businesses through the Covid Corporate Financing Facility (CCFF), but the list of those using the scheme is being kept confidential. **In the interests of transparency and oversight, the Bank of England must publish which companies are being supported with public money via the CCFF.**

Corporate QE

- The Bank of England's [Corporate Bond Purchase Scheme](#) (CBPS), commonly referred to as 'corporate QE' is an extension of the central bank's [Asset Purchase Facility](#), commonly known as quantitative easing (QE).
- Corporate QE involves the Bank injecting newly created money into the financial system by buying up bonds from corporations listed on the London Stock Exchange.
- As well as attracting [criticism](#) as a subsidy for some of the world's largest corporations, particular attention has been drawn to the fact that corporate QE is disproportionately skewed towards high-carbon sectors. [Research](#) from the LSE's Grantham Institute found that bonds from industries responsible for 52% of UK emissions make up 49.2% of those which were eligible for purchase as part of the BoE's £10bn first round of corporate QE in 2016, despite only making an 11% contribution to national gross value added (GVA).
- Among those from whom the BoE has purchased bonds are fossil fuel companies such as Shell, BP and Total, whose business models are incompatible with the government's climate objectives.

Andrew Bailey's commitments

- Ahead of his appointment as Bank of England governor, Andrew Bailey was urged by more than 100 leading experts and civil society figures to “lead by example, and pledge to exclude fossil fuel assets from the Bank’s future bond purchases and collateral framework”, in an [open-letter](#) coordinated by Positive Money in March.
- This letter was raised during Andrew Bailey’s [pre-appointment hearing](#) with the Treasury Select Committee on 4 March, with committee member Julie Marson MP asking:

“You recently received quite an interesting letter from a group of environmental experts, including a former MPC member. It calls on the Bank to exclude fossil fuel assets from future bond purchases—which is, of course, in line with the Government’s broader agenda as well. Does the Bank hold such assets—particularly coal?”
- In his response, Bailey told the Committee:

“The question you rightly raise is whether we should shift that to say, “Given the public interest in climate change, we should shift the make-up of the [BoE’s corporate bond] portfolio to being one that is on the way to net neutral,” or however you want to define it. I think there is a very strong argument for doing that.”
- Bailey added that he “would intend to have that discussion with the Treasury because I think it is a perfectly sensible thing to do”, and that he “will take it forward.” Asked by Marsden if he will do so as a priority, Bailey confirmed “It will be a priority, yes.”

Corporate QE in response to COVID-19

- In a special meeting on [19 March](#) the **Bank of England’s Monetary Policy Committee (MPC) voted unanimously to expand its QE programme by an additional £200bn**, bringing its holding of government and corporate bonds to a total of £645bn.
- In a [market notice](#) on 2 April the **BoE confirmed that £10bn of this new £200bn would be used to purchase corporate bonds**, bringing the Bank’s total holdings of corporate bonds to £20bn. The Bank also announced that corporate bond purchases will commence using the same list of eligible bonds published in August 2019.
- **Among the eligible bonds are those issued by fossil fuel companies including BP, BG Energy (owned by Shell), and Total.**
- **The Bank of England buying more bonds from such companies would appear to contradict Andrew Bailey’s pledge to prioritise bringing the Bank’s corporate bond portfolio in line with the governments’ goals for net-neutral carbon emissions.**
- Bailey would have been well aware that further QE was an immediate likelihood in response to the COVID-19 crisis when he made this pledge. During an [oral evidence session](#) the day before which discussed the economic impact of coronavirus, Bailey’s predecessor Mark Carney told the TSC that the Bank was ready to respond to an economic downturn with QE, adding that “There is a range of assets we can purchase.” Carney’s comments were also referenced during Bailey’s hearing.
- In his [letter](#) to the Chancellor on 19 March, Bailey said (our emphasis):

“There will also be the opportunity for HMT to provide views to the MPC on the design of private sector asset purchases, in light of their broader economic objectives and in view of the risks posed to the public sector balance sheet. Any changes to the maximum size and composition of assets held in the APF will continue to be agreed through an exchange of letters between you and I. Changes to the parameters within the risk control framework will also continue to be agreed between Bank and Treasury officials.”

The Treasury is therefore being given the opportunity to comment on what assets the Bank of England can buy. However there is no indication that Bailey has taken forward proposals to change the design of corporate bond purchases to reflect the UK's climate objectives.

- In its [2 April](#) market notice the Bank of England said it expects to publish a first update to the eligible list of bonds for purchase under corporate QE in mid-April. MPs must ensure that this update reflects Andrew Bailey's pledge to decarbonise the Bank's corporate bond purchases.

Recommendation: The Treasury and Bank of England should agree to exclude bonds issued by fossil fuel extraction companies from the list of corporate bonds eligible for purchase through QE. The Bank must also consider excluding bonds issued by any other companies whose business model is not in line with the Paris Agreement and the government's objective to reach net-zero carbon emissions by 2050.

Covid Corporate Financing Facility (CCFF)

- As part of its response to the coronavirus pandemic, on 17 March the Treasury and the Bank of England [announced](#) a Covid Corporate Financing Facility (CCFF) to provide funding to large firms whose cash flows have been disrupted by the economic fallout.
- The CCFF involves the Bank of England using newly created money to buy up commercial paper (short term debt) from companies, in a similar manner to QE.
- The CCFF is available to companies which are able to issue investment grade commercial paper, meaning that this is a scheme which is only on offer for big business. Beyond this, eligibility is based on whether companies are deemed to “make a material contribution to the UK economy”, with no social or environmental criteria attached.
- While SMEs have faced a range of [barriers](#) to accessing funds from commercial banks through the CBILS scheme, the CCFF provides big business with direct access to newly created money at the Bank of England, of which the Bank has pledged to provide in an [unlimited](#) quantity
- In its [information](#) for those seeking to participate in the CCFF, the Bank of England states that “The names of issuers and securities purchased or eligible

will not be made public.” This in effect means there will be no public oversight of what firms are being bailed out with public money via the scheme.

- As of [8 April](#), the Bank of England had bought more than £5.5bn of short term debt from companies via the CCFF. Companies which have reported their use of the CCFF include airline [EasyJet](#) for £600m, housebuilder [Redrow](#) for £300m, and food retailer [Greggs](#) for £150m. However, in confirming their participation in the scheme, these companies may have violated a confidentiality agreement, which firms are required to sign with the BoE to participate in the CCFF. It remains unknown where the vast majority of CCFF funds have gone.
- The need for transparency is compounded by the absence of social and environmental conditions attached to CCFF support, which [campaigners and experts](#) have argued must be a necessary consideration for corporate bailouts during the Covid-19 pandemic.

Recommendation: The Treasury and the Bank of England must publish the list of companies which are being bailed out with public money via the CCFF going forward, removing the requirement that participating firms sign a confidentiality agreement.