THE
INVESTMENT
ASSOCIATION

The Investment Association
Camomile Court, 23 Camomile Street,
London, EC3A 7LL

+44 20 7831 0898
hugo.gordon@theia.org
theia.org
@InvAssoc @The Investment Association

5th July 2021

To whom it may concern,

RE: Options for greening the Bank of England's Corporate Bond Purchase Scheme

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. The UK investment management industry is the largest in Europe and the second largest globally.

The IA and our members have long been advocates of the importance of integrating ESG factors and clients' sustainability and responsible investment preferences into investment decisions. We have a broad and active programme of work that seeks to promote all forms of responsible investment, including support for initiatives that bring stakeholders together to work towards an economy, society and planet fit for the future. To that end, we would like to express support for the intention to "green" the Corporate Bond Purchase Scheme and to explore how the Bank can use its own balance sheet to incentivise bond issuers to support the transition to Net Zero.

However, our members have expressed some concern regarding the detail of the Scheme and would like to see further clarity on certain aspects. This includes:

1. **The Bank's engagement plans and divestment strategy:**

In the Discussion Paper, the Bank has indicated that it does not expect to be a permanent investor in corporate bonds. Whilst this is understood and supported in principle, our members would like to express a concern about the possible unintended consequences should the Bank unwind these assets. It is thought that significant disruption could be created within the sectors involved and we would therefore ask that the Bank provides further explanation as to how this could / would be avoided.

2. **Transition is a long-term objective:**

We see a tension between the Bank's intention to incentivise bond issuers with a transition to Net Zero and at the same time to not hold bonds for the long-term *(the Bank's intention not to be a permanent investor in corporate bonds).* It seems unlikely that the transition goals would be achieved in the short term and therefore we would like to see additional explanation as to how this would be considered.

3. **The market for climate action/ transition-supportive fixed income instruments remains small**

Our members expressed some concern that as a significant buyer in an already small market of climate change-appropriate fixed income instruments, the Bank's presence could not only crowd out private investors but reduce the risk premiums earned.

4. **The scope of the Principles**

The IA's members have observed that the Principles are framed in terms of risk management with no focus on the broader social objective. The result of this is an approach focused on the environmental characteristics of issuers, with little consideration as to how it directly supports environment related investment in the real economy. This could lead to investors investing in, for example, a software company because it has a Net Zero pathway for its operations, but tilting away from a water company or rail rolling stock bonds because they have high carbon intensity of operations despite the fact it is the latter that is required for investment in the real economy to enable the transition of the former.

The IA would therefore like to see more focus on sustainability and social objectives within the Principles. In addition, we observe that the framework omits to consider biodiversity, an important related area that would benefit from inclusion within the Scheme.

5. **Learnings from the Green Bonds market**

We note the discussion around green bonds in the paper and would like to emphasise that a focus on issuer level rather than instrument level metrics to incentivise companies to change is preferred. If green bonds are incorporated to achieve real 'additionality' and contribute to the economic objectives of the government, we would ask that the criteria for inclusion be more stringent than the Green Bond Principles recommendations and in line with or tighter than certified standards such as the Climate Bonds Standards or the EU GBS. This might involve materially tightening criteria such as a lookback period, to ensure such bonds are funding new projects promoting environmental objectives. In addition, we see issuers promoting themselves as green or using the green bond label when funding projects that they had planned irrespective of any climate objectives. The focus, however, should be on rewarding companies for innovating towards solutions that will best enable the UK to achieve its required pathway.

6. **Consistency with existing and emerging frameworks**

Finally, the IA would like to emphasise the importance of alignment with existing and emerging frameworks and regulation, including the developing UK taxonomy and the newly announced integrated Sustainability Disclosure Requirements. The Bank otherwise could inadvertently be seen as setting its own definition for what constitutes a green standard, which could create significant risk and fragmentation for the wider investment community.

We hope you find our feedback useful. We would be delighted to discuss further any of the matters raised in our response.

Hugo Gordon

Hugo Gordon
Policy Specialist, Capital Markets