



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Ms Irene Tinagli

Chair of the Committee on Economic and Monetary Affairs

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 4 July 2022

L/CL/22/180

Further steps to incorporate climate change into ECB's monetary policy operations

Dear Chair, dear Irene,

As you know, the Governing Council of the ECB is firmly committed to further incorporating climate change considerations into its monetary policy framework, within its mandate. Although elected governments bear the primary responsibility of addressing climate change – and have more powerful tools to do so than central banks – the ECB is convinced that all policymakers need to take appropriate measures within their own mandates and respective areas of competence. In line with this ambition, the ECB announced a comprehensive action plan in July 2021, setting out a roadmap for stepping up its involvement in climate-related matters.¹

In our recent exchanges, Members of the European Parliament have expressed a keen interest in our progress on the action plan, and I have also pledged to keep the European Parliament and the general public informed about our progress. Over the last year the ECB, together with the Eurosystem, has worked intensely to deliver on its commitments. Today, we announced our decisions to account for climate change in our corporate bond purchases, collateral framework, disclosure requirements and risk management.

The Governing Council of the ECB has decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices. Corporate bond holdings in the Eurosystem's monetary policy portfolio will be tilted towards issuers with better climate performance, through the reinvestment of the

¹ See "ECB presents action plan to include climate change considerations in its monetary policy strategy", *press release*, ECB, 8 July 2021, and the associated annex entitled "Detailed roadmap of climate change-related actions", both available at: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html.

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal address

European Central Bank
60640 Frankfurt am Main
Germany

Tel: +49-69-1344-0

Fax: +49-69-1344-7305

Website: www.ecb.europa.eu

sizeable redemptions expected over the coming years. The share of assets issued by entities with a high carbon footprint that can be pledged as collateral by individual counterparties in Eurosystem credit operations will be limited. Further, once the Corporate Sustainability Reporting Directive (CSRD) is fully implemented, the Eurosystem will only accept marketable assets and credit claims from companies and debtors that comply with the CSRD as collateral in Eurosystem credit operations. To better include climate-related risks, the Eurosystem will further enhance its risk assessment tools and capabilities, both by urging rating agencies to be more transparent about how they incorporate climate risks into their ratings and to be more ambitious in their disclosure requirements on climate risks, and through a set of common minimum standards for how national central banks' in-house credit assessment systems should include climate-related risks in their ratings.² These measures are designed in full accordance with the Eurosystem's primary objective of maintaining price stability. They aim to better take into account climate-related financial risk in the Eurosystem balance sheet and, with reference to our secondary objective, support the green transition of the economy in line with the EU's climate neutrality objectives. Moreover, our measures provide incentives to companies and financial institutions to be more transparent about their carbon emissions and to reduce them.

Looking ahead, the Governing Council is committed to regularly reviewing all the measures outlined above. It will assess their effects and adapt them, if necessary: (1) to confirm that they continue to fulfil their monetary policy objectives; (2) to ensure – within its mandate – that the relevant measures continue to support the decarbonisation path to reach the goals of the Paris Agreement and the EU climate neutrality objectives; (3) to respond to future improvements in climate data and climate risk modelling or changes in regulation; and (4) to address additional environmental challenges, within its price stability mandate.

The ECB is also including climate change considerations in areas of its work besides monetary policy, including banking supervision, financial stability, economic analysis, statistical data and corporate sustainability. With this commitment, we aim to make a real difference in three ways: (1) by managing and mitigating the financial risk of climate change and assessing its economic impact, (2) by promoting sustainable finance to support an orderly transition towards a low-carbon economy and (3) by sharing our expertise to help foster wider changes in economic behaviour. An overview of ongoing actions can be found in the ECB-wide climate agenda.³

At the same time, as I noted in my regular hearing before your Committee in June, the ECB is not acting in a vacuum, but rather in conjunction with the policies decided by other policymakers. Let me remark that all the actions we announced today are on track to meet the deadlines indicated in the climate roadmap, with the exception of those future steps that rely on the application of the forthcoming Corporate Sustainability Reporting Directive (CSRD), which will be later than initially proposed by the European Commission. A

² For more detailed information on the measures, see "ECB takes further steps to incorporate climate change into its monetary policy operations", *press release*, ECB, 4 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704~4f48a72462.en.html>.

³ See "ECB climate agenda 2022", available at: https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704_annex~cb39c2dcbb.en.pdf.

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

further delay in the national transposition of the CSRD or the adoption of the harmonised reporting standards would have knock-on effects on the implementation of the ECB's actions. I am also counting on the co-legislators' ambition and willingness to further strengthen the regulatory framework underpinning climate-related disclosures and risk assessments, as well as to develop sound standards for sustainable financial products. For instance, improving climate disclosures and harmonised reporting of climate-related data for structured finance assets would help incorporate climate considerations into the treatment of those asset classes. In a similar vein, more ambitious regulatory requirements for credit rating agencies' disclosure of climate risks are crucial to improving the Eurosystem's risk assessment capabilities. Swift agreement on the European green bond standard remains key to enhancing the credibility and effectiveness of green bonds.

The ECB will continue its work to address climate change and stands ready to further discuss its actions with the Members of the Committee on Economic and Monetary Affairs in the coming months.

Yours sincerely,

[signed]

Christine Lagarde

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu