



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

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Members of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 28 September 2020

L/CL/20/260

**Re: Your letters (QZ-049, QZ-050)**

Honourable Members of the European Parliament,

Thank you for your letters, which were passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 4 August 2020.

Climate change is an urgent and major challenge to which all stakeholders must respond and play their part. Within its mandate, the European Central Bank (ECB) is firmly committed to exploring every possible avenue through which it can contribute to mitigating climate change. To this end, we have already taken a number of concrete measures. Most recently, on 22 September the ECB decided that bonds with coupon structures linked to certain sustainability performance targets will become eligible as collateral for Eurosystem credit operations and also for Eurosystem outright purchases for monetary policy purposes, provided they comply with all other eligibility criteria.<sup>1</sup> The coupons must be linked to a performance target

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<sup>1</sup> See "ECB to accept sustainability-linked bonds as collateral", *press release*, ECB, 22 September 2020, available at <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200922~482e4a5a90.en.html>.

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referring to one or more of the environmental objectives set out in the EU Taxonomy Regulation<sup>2</sup> and/or to one or more of the United Nations Sustainable Development Goals relating to climate change or environmental degradation. This further broadens the universe of Eurosystem-eligible marketable assets and signals the Eurosystem's support for innovation in the area of sustainable finance. For a comprehensive overview of other steps already taken by the ECB, I would like to refer you to the ECB's Annual Report 2019 and, in particular, the box on "The ECB and climate change".<sup>3</sup> In the same vein, the ECB Annual Report on supervisory activities 2019, published in March 2020, contains a dedicated box on "Green finance", which provides an overview of current and planned supervisory measures in relation to banks' handling of climate-related and environmental risks.<sup>4</sup> I am committed to looking at all the implications in relation to our tasks and operations and, within with our mandate, to making the necessary adjustments to tackle climate change.

Our monetary policy strategy review will further examine how the ECB can contribute to mitigating climate change. Given the urgency and great importance of this matter, I regret that conclusions on this topic had to be postponed by six months because of the coronavirus (COVID-19) pandemic. The strategy review will provide the opportunity to discuss how sustainability issues can be reflected in our monetary policy framework, including exploring the extent to which climate-related risks are understood and priced in by market participants, and how credit rating agencies incorporate such risks into their assessments. In this context, and as highlighted in the Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive<sup>5</sup>, it is essential that swift progress is made to close existing data gaps and to ensure that corporate data disclosure is made more consistent and more accurate. This is a prerequisite for conducting an accurate analysis of the possible risks to which the ECB is exposed in the conduct of its monetary policy, as well as for any potential adjustment within the Eurosystem monetary policy implementation framework.

As I have had the opportunity to discuss on several occasions, the immediate focus of our recent policies has been on addressing the acute economic and financial strains created by the pandemic. The core features of the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) are designed in a broad and flexible manner to have the widest possible impact and do not positively or negatively discriminate on the basis of environmental or any other criteria. This supports the

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<sup>2</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

<sup>3</sup> See *Annual Report 2019, ECB*, May 2020, available at <https://www.ecb.europa.eu/pub/annual/html/ar2019~c199d3633e.en.html>.

<sup>4</sup> See *ECB Annual Report on supervisory activities 2019*, ECB, March 2020, available at <https://www.bankingsupervision.europa.eu/press/publications/annual-report/html/ssm.ar2019~4851adc406.en.html>.

<sup>5</sup> See *Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive*, ECB, June 2020, available at [https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations\\_20200608~cf01a984aa.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf).

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effectiveness of the programmes and helps mitigate distortions of specific market segments. Nonetheless, under the corporate sector purchase programme (CSPP), the Eurosystem holds close to 20% of all CSPP-eligible green bonds, the proceeds of which are used to finance projects with an environmental benefit. As this market segment develops and grows, the Eurosystem will increase the share of green bonds that it holds. Ultimately, this supports the private sector's increasing efforts to adopt more energy-efficient technologies, reduce its carbon footprint and redirect activities toward renewable resources. Ambitious progress on the EU sustainable finance agenda and on capital markets union will be essential to foster further development in this market segment.

In response to your question regarding disclosure, unfortunately specific data on the individual value of bonds cannot be provided as it would allow market participants to draw inferences about the Eurosystem's holdings and adjust their behaviour according to assumptions drawn from the information made available. Being unaware of the individual assets considered for purchase by the ECB and the euro area national central banks, market participants tend to invest broadly in the entire categories targeted. By contrast, granting market participants access to detailed, disaggregated information on the CSPP and PEPP portfolios could introduce undue volatility and distort price discovery in the market while compromising the effectiveness of the intervention measures and, potentially, their monetary policy objective.<sup>6</sup> In short, disclosure of the value of individual bonds would harm the effectiveness of these programmes, which are critical in delivering the favourable financial conditions that are necessary to support the economy in view of the severe risks posed to the euro area outlook by the coronavirus pandemic and a sustained adjustment in the inflation path consistent with the ECB's primary objective of price stability.

Furthermore, as regards disclosing the total value of carbon-related assets, such quantification would require a link to be established between the bonds purchased by the ECB and the carbon-intensity of the investments financed with the proceeds of such bond issuance. Other than in specific cases where the use of proceeds is specified (as for instance in the case of green bonds), eligible debt securities provide funding for general purposes and are not earmarked to finance individual assets or lines of business. Consequently, determining a possible environmental impact based on backward-looking and sectoral or firm-level data could be misleading.<sup>7</sup> As highlighted in our reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive, the ECB supports ongoing efforts to improve the availability of corporate-level information that could help close existing data gaps and allow more granular analyses. The development of a taxonomy of carbon-intensive

<sup>6</sup> See paragraph 80 of the Judgment of the General Court (Ninth Chamber) of 4 June 2015, *Versorgungswerk der Zahnärztekammer Schleswig-Holstein v ECB*, Case T-376/13, ECLI:EU:T:2015:361, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62013TJ0376>.

<sup>7</sup> As explained on 8 June 2020 at the regular monetary dialogue with the Committee on Economic and Monetary Affairs, such analyses do not distinguish between the debt instruments that benefit from ECB asset purchases and the individual investments financed by the proceeds from issuing such debt instruments, nor do they capture any dynamics within firms over time. See also *Letter from the ECB President to Mr Paul Tang and Ms Neena Gill, MEPs, on monetary policy*, ECB, 19 December 2020, available at [https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter191220\\_Tang\\_and\\_Gill-84f611ceb8.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter191220_Tang_and_Gill-84f611ceb8.en.pdf).

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activities could further complement the green taxonomy and potentially allow financial institutions to disclose the share of carbon-related assets on their balance sheets.

To close, I would like to reiterate that, within its mandate and without prejudice to its primary objective of price stability, the ECB is firmly committed to exploring every area where it could usefully contribute to the sustainability objectives of the Union and notably to mitigating climate change.

Yours sincerely,

[signed]

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