



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Markus Ferber
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 11 November 2022

L/CL/22/228

Re: Your letter (QZ-028)

Honourable Member of the European Parliament, dear Mr Ferber,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 27 September 2022.

In line with the action plan announced in July 2021, on 4 July 2022 we decided to take the following four measures: to decarbonise corporate bond holdings in the Eurosystem's monetary policy portfolio; to limit the share of assets issued by non-financial companies with a high carbon footprint that can be pledged as collateral by individual counterparties when borrowing from the Eurosystem; to introduce climate-related disclosure requirements for collateral; and to enhance our climate risk assessment and management.¹ From 1 October we started to tilt our reinvestments with the aim of decarbonising our corporate bond holdings.²

Regarding your first question, the corporate bond purchase limits continue to be based primarily on the market capitalisation of the issuer group in question to ensure a diversified allocation of purchases across issuers. Market neutrality is an operational tool, not a legal requirement. Generally, it helps to safeguard that the Eurosystem's interventions in the market comply with the Treaty principle of "an open market economy with free competition, favouring an efficient allocation of resources". The Eurosystem can justifiably deviate from an entirely market-neutral allocation of purchases, and it has done so for various reasons since the establishment of the CSPP – for example, whenever this has been necessary to fulfil the objectives of monetary

¹ 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>.

² See "ECB provides details on how it aims to decarbonise its corporate bond holdings", *press release*, ECB, 19 September 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220919~fae53c59bd.en.html>.

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policy or to address risk management considerations. Under the tilting approach, the Eurosystem has modified the benchmark allocation for its corporate bond reinvestments in order to incorporate climate change considerations. The change enables the Eurosystem to take into account climate-related financial risks, regulatory and legal developments, and the availability and quality of data, while maintaining the broad scope of the purchase programmes. This ensures that these reinvestments are effective in achieving the Eurosystem's primary objective of maintaining price stability, and are in line with the principles of proportionality and equal treatment as well as with the above-mentioned principle of an open market economy.

Regarding the second question, I would highlight that the Eurosystem's approach to tilting corporate bond purchases is risk-based, and focuses on the climate-related risk profile of all eligible issuers in that universe, rather than targeting green bonds or other green securities specifically. Concretely, a specific climate score is calculated for each individual issuer.³ Purchases are then tilted towards bonds from issuers with better climate scores, with the aim of mitigating climate-related financial risks on the Eurosystem's balance sheet.

Implementation aspects of the Eurosystem's purchases can also help to mitigate any risk of market distortions. For example, the majority of purchases are executed by bilateral trades with counterparties. Bilateral trading entails responding flexibly to market participants' offers, requesting prices from several counterparties for the same security and then trading at the best price. Such trades are particularly well-suited to the liquidity and heterogeneity of euro area corporate bond markets, as they can be tailored to market conditions to avoid market distortions. The Eurosystem also supports smooth market functioning through its securities lending facilities, whereby market participants can borrow corporate bond securities held in our portfolios.

Regarding your last question, let me emphasise that the measures we have taken to integrate climate change considerations into our monetary policy framework are fully in line with our primary objective of maintaining price stability. I would like to highlight two points in this respect.

First, these measures are necessary for the Eurosystem to manage, as effectively as possible, the climate-related financial risks to which it is exposed when implementing monetary policy, in pursuit of its primary objective of maintaining price stability. This is because physical and transition risks related to climate change can affect the value and risk profile of the assets held on the Eurosystem's balance sheet, and financial risk management forms part of the pursuit of the Eurosystem's primary objective of maintaining price stability, irrespective of the nature of these risks.

³ See "FAQ on incorporating climate change considerations into corporate bond purchases", available at https://www.ecb.europa.eu/mopo/implement/app/html/ecb.cspp_climate_change-faq.en.html.

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Second, the tilting of the corporate bond holdings does not imply additional bond purchases. Rather, it means that, over time, bonds issued by companies with a better climate performance will constitute a larger share of assets on the Eurosystem's balance sheet, while those issued by companies with a poorer climate performance will constitute a smaller share. This mechanism also sends a strong signal to companies and financial institutions to reduce their carbon emissions. However, the tilting will not affect the overall volume of corporate bond purchases judged adequate by the Governing Council to achieve the warranted monetary policy stance. This volume will continue to be determined solely by its role in achieving the ECB's inflation target⁴.

In addition, and without prejudice to our primary objective of maintaining price stability, the measures also serve our secondary objective – to support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.⁵ These objectives include a high level of protection and improvement of the quality of the environment.⁶ If, when adjusting its monetary policy instruments, the Governing Council is faced with a choice between two configurations of its instrument set, it will choose the one that best supports the general economic policies in the Union, provided that both configurations are equally conducive and not prejudicial to maintaining price stability. The incorporation of climate change considerations into the Eurosystem's corporate bond purchases is designed to have a neutral effect on the overall monetary policy stance. Given that this measure is equally conducive and not prejudicial to price stability, its introduction also serves to support the general economic policies in the Union.

Yours sincerely,

[signed]

Christine Lagarde

⁴ See the ECB's monetary policy strategy statement, in particular point 5, available at: https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html. See also: *The ECB's new inflation target one year on*, available at: <https://www.ecb.europa.eu/press/blog/date/2022/html/ecb.blog220810~78357be60b.en.html>.

⁵ See Article 127(1) of the Treaty on the Functioning of the European Union, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT>. See Article 3 of the Treaty on the European Union, in particular paragraph 3, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A12008M003>.

⁶ This includes the EU's binding climate neutrality objectives. See Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1), available at: <https://eur-lex.europa.eu/search.html?lang=de&text=2021%2F1119&qid=1666774687268&type=quick&scope=EURLEX&locale=en>, which establishes a binding objective of climate neutrality in the Union by 2050 in pursuit of the long-term temperature goal set out in the Paris Agreement. As the European Climate Law affects every conceivable aspect of economic policy in the Union, it forms part of the general economic policies in the Union, which the ECB is required to support.

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