



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Mr Rasmus Andresen

Mr Ernest Urtasun

Members of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 16 September 2022

L/CL/22/205

Re: Your letter (QZ-024)

Honourable Members of the European Parliament, dear Mr Andresen and Mr Urtasun,

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 20 July 2022.

In your letter, you specifically enquire about discussions regarding a potential “green targeted lending facility, or a green discount interest rate on future refinancing operations”. The climate change action plan we announced in July 2021 sets out the priorities determined by the Governing Council of the European Central Bank (ECB) in the context of our 2020-21 monetary policy strategy review.¹ As part of this exercise, we reflected on a broad range of possible instruments that could be used, within our mandate, to incorporate climate change considerations into our policy framework. As outlined in the report published in the context of the ECB’s strategy review, the feasibility of refinancing operations with a green target crucially hinges on the availability of a proper definition of these criteria and the ability to measure them reliably. While ongoing regulatory developments can be expected to improve data availability over time, significant challenges persist in relation to data coverage and quality, as well as verification processes and capacities.² These aspects are particularly relevant for setting up a “green targeted lending facility”.

¹ See “ECB presents action plan to include climate change considerations in its monetary policy strategy”, *press release*, ECB, 8 July 2021, available at: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html.

² For more information, see “Climate change and monetary policy in the euro area”, *Occasional Paper Series*, No 271, ECB, Frankfurt am Main, September 2021, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op271~36775d43c8.en.pdf>.

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In line with the timeline announced in our action plan and as you point out, the Governing Council recently decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework³, and the ECB's work in that area is progressing as outlined in the climate roadmap. Looking ahead, the Governing Council is committed to regularly reviewing the measures that have been decided, to ensure that they are fit for purpose and to respond to future improvements in data, modelling and regulation.

In your letter, you also enquired about the quantitative targets and timeline for the measures announced regarding our corporate bond holdings and collateral framework. We aim to gradually decarbonise our corporate bond holdings, on a path aligned with the goals of the Paris Agreement. To that end, we will tilt these holdings towards issuers with better climate performance, through the reinvestment of the sizeable redemptions expected over the coming years. As such, maturing corporate bonds will be reinvested in line with the newly tilted benchmark. In future years, we expect annual maturities to amount to around 10% of total corporate bond holdings. We expect the tilting measures to apply from October 2022, and further details will follow shortly before then. Please also note that the decarbonisation path of our corporate bond holdings depends not only on the tilt of the reinvestments but also on the action and decarbonisation path taken by the companies whose assets are included in the portfolio. In any case, the tilting of the holdings will be fully aligned with the policy stance required to fulfil our primary objective of maintaining price stability. Let me recall that when tilting, the Eurosystem takes into account not only companies' current carbon footprint but also their decarbonisation targets, as well as the quality of their climate disclosures. We will start publishing climate-related information on corporate bond holdings regularly from the first quarter of 2023.

We also announced that the share of assets issued by entities with a high carbon footprint that can be mobilised as collateral by individual counterparties when borrowing from us will be limited, to reduce climate-related financial risks in Eurosystem credit operations. The measure is expected to apply before the end of 2024, provided that the necessary technical preconditions are in place. Further details, including the timeline, will be communicated in due course. I would like to recall that, in line with its statute, the Eurosystem provides credit only against adequate collateral.

Yours sincerely,

[signed]

Christine Lagarde

³ 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>.