



**EUROPEAN CENTRAL BANK**  
**EUROSYSTEM**

**ECB-PUBLIC**

Christine LAGARDE  
President

Mr Bas Eickhout  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
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Frankfurt am Main, 3 February 2023

L/CL/23/15

**Re: Your letter (QZ-035)**

Honourable Member of the European Parliament, dear Mr Eickhout,

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 29 November 2022.

Although elected governments bear the primary responsibility for addressing climate change and have more powerful tools to do so than central banks, the European Central Bank (ECB) is convinced that all policymakers need to take appropriate measures within their respective mandates and areas of competence. As announced in July 2022 and communicated to the Committee on Economic and Monetary Affairs (ECON) in a letter to Ms Tinagli,<sup>1</sup> the Eurosystem aims to gradually decarbonise its corporate bond holdings on a path aligned with the goals of the Paris Agreement. In October 2022, the Eurosystem began tilting its reinvestment purchases of corporate bonds towards issuers with a better climate performance, which is determined according to a specific climate score calculated by the ECB for each issuer. The benchmark guiding the Eurosystem's purchases is tilted by increasing the benchmark weighting given to issuers with higher (i.e. better) climate scores and decreasing the weighting of lower-scoring issuers. It should be noted that, prior to October 2022, the benchmark – and therefore the overall asset allocation for the corporate bond purchase programme – had been based mainly on issuers' market capitalisation.

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<sup>1</sup> See *Letter from the ECB President to Irene Tinagli, ECON Chair, on progress on climate-related action plan*, ECB, 4 July 2022, available at: [https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter220704\\_Tinagli-466b72513d.en.pdf?ef8c7e0645c2cbc204187b325879e8c9](https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter220704_Tinagli-466b72513d.en.pdf?ef8c7e0645c2cbc204187b325879e8c9).

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The tilting of the purchases will improve the weighted average climate score of the Eurosystem's corporate bond holdings over time, in a way that is aimed to be consistent with a decarbonisation path aligned with the goals of the Paris Agreement. To ensure the climate score methodology remains suitable for the purpose intended, it will be reviewed by October 2023, i.e. within one year of implementation, and adjusted if necessary.

Specific issuers and industry sectors are not excluded from the tilted benchmark. Their climate performance instead affects their benchmark share, which in turn affects the volume of future purchases from those issuers and industry sectors. As the benchmark share of specific low-scoring issuers is expected to be smaller than the Eurosystem's holdings of bonds from such issuers at a given point in time, purchases of their securities will be, other things remaining equal, reduced or even halted until their climate score improves. This approach is designed to incentivise a wide range of issuers and sectors to improve their climate risk profile and performance.

The methodology used to derive issuers' climate scores is based on:

- (i) backward-looking climate metrics, which combine a best-in-class with a best-in-universe approach in the form of past greenhouse gas emissions and emission intensities for both the issuers and their sectors;
- (ii) forward-looking climate metrics, such as whether the issuers have credible and ambitious decarbonisation targets in place;
- (iii) the quality of climate disclosures, on the basis of their completeness and verification by reliable third parties.

Transparency is central to helping the public and market participants better understand how and why the ECB carries out its operations. In September 2022, the ECB published frequently asked questions on the technical aspects of incorporating climate change considerations into its corporate bond purchases.<sup>2</sup> As explained in the responses, the design of the climate scoring methodology was guided by the requirements for the EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks under Regulation (EU) 2016/1011 as amended by Regulation (EU) 2019/2089<sup>3</sup>. The climate scores of individual issuers will not be publicly disclosed. This decision follows from the ECB having to weigh public interest in such data against the risk of causing unwanted effects that may undermine monetary policy objectives and the effectiveness of the Eurosystem's corporate bond purchases. Publishing such information might lead investors to draw inferences about specific issuer group limits or future Eurosystem purchases and to adjust their own behaviour accordingly, for example by pre-positioning themselves to take advantage of this information. This could have

<sup>2</sup> 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](https://www.ecb.europa.eu/mopo/implement/app/html/ecb.cspp_climate_change-faq.en.html).

<sup>3</sup> See Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (OJ L 317, 9.12.2019, p. 17), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32019R2089>.

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a negative impact on the ECB's monetary policy objectives and on the green transition by substantially raising the cost of green investments for firms that have not yet fully met the highest standards.

In your letter, you also enquire about discussions regarding green targeted lending. The climate change action plan we announced in July 2021 sets out the priorities of the ECB's Governing Council in the context of our 2020-21 monetary policy strategy review. These priorities take into account our primary objective of price stability and, without prejudice to that objective, our secondary objective of supporting the general economic policies in the European Union, with a view to contributing to the achievement of the objectives of the Union. This is the Treaty framework under which all climate-related measures at the ECB are to be considered. Therefore, a green lending facility would need to be without prejudice to the ECB's primary mandate, in other words compatible with the monetary policy stance required to achieve the ECB's price stability objective. 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 the relevant criteria and the ability to measure them reliably. This is why they were not included in the agreed measures of the climate action plan.

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. The Governing Council is therefore committed to regularly reviewing all the measures announced in July 2022. It may adapt them if necessary and in a way that is consistent with the primary objective in order to respond to future improvements in climate data and risk modelling, or changes in regulation, and to ensure they are fit for purpose.

Yours sincerely,

[signed]

Christine Lagarde

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