



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Bas Eickhout
Mr Ernest Urtasun
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 April 2022

L/CL/22/107

Re: Your letter (QZ-004)

Honourable Members of the European Parliament, dear Mr Eickhout 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 17 February 2022.

The scale and irreversibility of climate change certainly call for urgent action from all stakeholders to accelerate the greening of the economy. As also recognised in a separate letter from you and further Members of the European Parliament, dated 28 March 2022, Russia's war in Ukraine has highlighted Europe's dependency on fossil fuel imports from Russia and emphasised the pressing need to speed up the green transition.¹ It is crucial for Europe to develop solutions to this pressing challenge, and the European Central Bank (ECB) strongly welcomes initiatives such as the European Commission's REPowerEU plan, which should help identify and support projects that seek to increase the resilience of the EU's energy sector. Although elected governments bear the primary responsibility of addressing climate change and have more powerful tools than central banks, at the ECB we are convinced that all policymakers need to take appropriate action within their own mandates and respective areas of competence.

Climate change reflections therefore featured prominently in our recent monetary policy strategy review. The action plan we announced in July 2021 outlines a comprehensive and carefully designed roadmap for stepping up our involvement in climate-related matters.² The ECB's Governing Council has made a firm commitment to

¹ See objectives recently set by EU leaders. [European Council meeting \(24 and 25 March 2022\) – Conclusions](#).

² See "[ECB presents action plan to include climate change considerations in its monetary policy strategy](#)", Press release, ECB, July 2021.

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

consider climate change more systematically in its monetary policy framework. The ECB has released an occasional paper offering readers detailed insight into the implications of climate change for the conduct of monetary policy in the euro area.³

In your letter dated 17 February 2022, you specifically inquired about our work incorporating climate change considerations in the ECB's asset purchases framework. In this regard, Action 9 of our detailed roadmap of climate change-related actions states the commitment to adjust the framework guiding the allocation of corporate sector bond purchases (CSPP) to take climate change into consideration by end-2022.⁴ This includes an assessment of potential biases in our purchase benchmarks, which serves as an input for the subsequent proposals for the definition of eventual alternatives (Action 4).

The considerations regarding the benchmark that guides purchases are an elementary building block for the proposals to adapt the CSPP framework. As previously communicated, these adjustments will include the introduction of criteria for issuers to better align their practices with EU legislation implementing the Paris Agreement. The alignment will be measured using climate-related metrics and/or by assessing the issuers' commitment to achieving such goals. In addition to the conceptual considerations mentioned above, the adjusted framework must be without prejudice to the achievement of our primary objective of price stability and it needs to comply with the general principles of European Union law, such as proportionality, an open market economy and equal treatment. The adjusted framework should be flexible enough to take into account newly available climate-related information and updated regulations.

The CSPP framework will also be adapted in line with our future disclosure requirements. Later this year, the ECB will announce a detailed plan to introduce disclosure requirements for private sector assets as a new eligibility criterion or as a basis for the differentiated treatment of collateral and asset purchases, as detailed in Action 5 on our climate roadmap. Such requirements will take into account EU policies and initiatives relating to environmental sustainability disclosure and reporting. The main purpose of these disclosure requirements is to incentivise issuers to adopt disclosure practices that ensure more complete and comparable information. This will ultimately allow the Eurosystem to better incorporate climate-related information in its risk management framework, while maintaining proportionality through adjustments for small and medium-sized enterprises. Moreover, consistent disclosures will allow investors to better assess the climate impact of and on firms, thus making disclosures an important building block for steering investment towards sustainable activities. As these measures depend on the implementation of EU policies on environmental sustainability disclosure and reporting, any delay in the entry into force of the relevant EU legislation, such as the Corporate Sustainability Reporting Directive, would also affect the timeline of the corresponding ECB actions.

The ECB is determined to deliver on its climate action plan and roadmap, as outlined in our strategy review. The adjustment of policy stimulus over time, as deemed necessary to deliver on our price stability mandate, will not diminish the ECB's commitment to further incorporate climate change considerations in its monetary

³ See "[Climate change and monetary policy in the euro area](#)", *Occasional Paper Series*, No 271, ECB, Frankfurt am Main, September 2021.

⁴ See roadmap, available at https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1_annex-f84ab35968.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

policy framework. In fact, the reinvestment period of our monetary policy asset portfolios will allow us to take environmental sustainability considerations into account in our policy portfolios well beyond the end of net asset purchases. Moreover, we can change the structure of our bond portfolio even when keeping the size of the portfolio unchanged, or when we start to reduce the size of our balance sheet. In line with the announced roadmap, our policy proposals for the CSPP are due in mid-2022. We intend to implement these proposals as planned for end-2022.

Let me conclude by recalling that the climate action plan is a firm commitment and an ambitious step, detailing not just our objectives, but also the deliverables and time frame for further incorporating climate change considerations in our monetary policy framework. This time frame outlined in the roadmap is based on the need to take all relevant information and options into account, fully appreciate the complex nature of the matter and ensure that legitimate, effective, and proportionate measures are adopted. The decisions on the ECB's monetary policy also require significant preparation and coordination with all relevant stakeholders. Furthermore, the ECB does not act in a vacuum, but rather in parallel with many other policymakers. Our roadmap remains broadly on track. We will inform you and the general public of our measures relating to its implementation – including on the possible adjustment to the CSPP – in due course.

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