Press release

19 September 2022

ECB provides details on how it aims to decarbonise its corporate bond holdings

- Decarbonisation to be based on issuer-specific climate score

- Corporate bond holdings to be tilted towards issuers with better scores

- Tilting to be applied to all corporate bond purchases settled as of 1 October 2022

The European Central Bank (ECB) today published further details on how it aims to gradually decarbonise the corporate bond holdings in its monetary policy portfolios, on a path aligned with the goals of the Paris Agreement. One goal is to reduce the Eurosystem's exposure to climate-related financial risk, following the Governing Council's July 2022 decision to tilt the Eurosystem's corporate bond purchases towards issuers with a better climate performance. Furthermore, these measures support the green transition of the economy in line with the EU's climate neutrality objectives.

The overall climate score that will be used to tilt bond holdings combines the following three sub-scores:

1. **The backward-looking emissions sub-score** is based on issuers' past emissions. It looks at how companies perform compared with their peers in a specific sector as well as compared with all eligible bond issuers. Those performing better receive a better score.

2. **The forward-looking target sub-score** is based on the objectives set by issuers to reduce their greenhouse gas emissions in the future. Companies with more ambitious decarbonisation targets receive a better score. This incentivises them to reduce their emissions.

3. **The climate disclosure sub-score** is based on the assessment of issuers' reporting of greenhouse gas emissions. Those issuers with high-quality disclosures receive a better score. This incentivises bond issuers to improve their climate-related disclosures.

Issuers' climate scores will affect their relative weighting in the benchmark guiding the Eurosystem's ongoing reinvestment purchases of corporate bonds. This will result in the purchase of more bonds issued by companies with a good climate performance and fewer bonds from those with a poor climate performance. Additionally, the Eurosystem will use the climate score to adjust its bids on the primary market to favour issuers with a better climate performance and to impose maturity limits on bonds from lower-scoring issuers.

The Eurosystem will take the climate score into account in all purchases of corporate bonds – whether under the corporate sector purchase programme (CSPP) or the pandemic emergency purchase programme (PEPP) – settled as of 1 October 2022. The overall volume of corporate bond purchases will continue to be determined solely by monetary policy considerations. The eligibility criteria for corporate bond purchases remain unchanged at this point.

The climate scores and the methodology used to calculate them will be reviewed regularly and may evolve to account for new developments in terms of data, models, regulation and risk assessment capabilities.

The ECB will start publishing climate-related information on its corporate bond holdings as of the first quarter of 2023 and will regularly report on the progress towards alignment with the goals of the Paris Agreement.

Tilting the Eurosystem's corporate bond holdings as of October 2022 will mark the achievement of another milestone in the ECB climate action plan announced in July 2021. The ECB-wide climate agenda provides an overview of all ongoing climate-related activities.

For media queries, please contact Simon Spornberger, tel.: +49 151 156 61 448.