

Press release

4 July 2022

ECB takes further steps to incorporate climate change into its monetary policy operations

- ECB to account for climate change in its corporate bond purchases, collateral framework, disclosure requirements and risk management, in line with its climate action plan
- Measures aim to reduce financial risk related to climate change on the Eurosystem's balance sheet, encourage transparency, and support the green transition of the economy
- Measures to be regularly reviewed to check that they are fit for purpose and aligned with the objectives of the Paris Agreement and the EU's climate neutrality objectives

The Governing Council of the European Central Bank (ECB) has decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. It decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices.

These measures are designed in full accordance with the Eurosystem's primary objective of maintaining price stability. They aim to better take into account climate-related financial risk in the Eurosystem balance sheet and, with reference to our secondary objective, support the green transition of the economy in line with the EU's climate neutrality objectives. Moreover, our measures provide incentives to companies and financial institutions to be more transparent about their carbon emissions and to reduce them.

"With these decisions we are turning our commitment to fighting climate change into real action", says ECB President Christine Lagarde. "Within our mandate, we are taking further concrete steps to incorporate climate change into our monetary policy operations. And, as part of our evolving climate agenda, there will be more steps to align our activities with the goals of the Paris Agreement."

The following concrete measures have been decided:

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- **Corporate bond holdings:** The Eurosystem aims to gradually decarbonise its corporate bond holdings, on a path aligned with the goals of the Paris Agreement. To that end, the Eurosystem will tilt these holdings towards issuers with better climate performance through the reinvestment of the sizeable redemptions expected over the coming years. Better climate performance will be measured with reference to lower greenhouse gas emissions, more ambitious carbon reduction targets and better climate-related disclosures.

Tilting means that the share of assets on the Eurosystem's balance sheet issued by companies with a better climate performance will be increased compared to that by companies with a poorer climate performance. This aims to mitigate climate-related financial risks on the Eurosystem balance sheet. It also provides incentives to issuers to improve their disclosures and reduce their carbon emissions in the future.

The ECB expects the measures to apply from October 2022, and further details will follow shortly before then. The ECB will start publishing climate-related information on corporate bond holdings regularly as of the first quarter of 2023.

In any case, the volume of corporate bond purchases will continue to be determined solely by monetary policy considerations and their role in achieving the ECB's inflation target.

- **Collateral framework:** The Eurosystem will limit the share of assets issued by entities with a high carbon footprint that can be pledged as collateral by individual counterparties when borrowing from the Eurosystem. The new limits regime aims to reduce climate-related financial risks in Eurosystem credit operations. At first, the Eurosystem will apply such limits only to marketable debt instruments issued by companies outside the financial sector (non-financial corporations). Additional asset classes may also fall under the new limits regime as the quality of climate-related data improves. The measure is expected to apply before the end of 2024 provided that the necessary technical preconditions are in place. To encourage banks and other counterparties to prepare early, the Eurosystem will run tests of the limits regime ahead of its actual implementation. Further details, including the timeline, will be communicated in due course. Additionally, the Eurosystem will, as of this year, consider climate change risks when reviewing haircuts applied to corporate bonds used as collateral. Haircuts are reductions applied to the value of collateral based on its riskiness.

In any case, all measures will ensure that ample collateral remains available, allowing monetary policy to continue to be implemented effectively.

- **Climate-related disclosure requirements for collateral:** The Eurosystem will only accept marketable assets and credit claims from companies and debtors that comply with the Corporate Sustainability Reporting Directive (CSRD) as collateral in Eurosystem credit operations (once the directive is fully implemented). As the implementation of the CSRD has been delayed, the new eligibility criteria are expected to apply as of 2026.

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This requirement will apply to all companies within the scope of the CSRD. It will help improve disclosures and generate better data for financial institutions, investors and civil society.

To encourage stakeholders to align with the new rules early on, the ECB will run test exercises one year ahead of actual implementation.

However, a significant proportion of the assets that can be pledged as collateral in Eurosystem credit operations, such as asset-backed securities and covered bonds, do not fall under the CSRD. To ensure a proper assessment of climate-related financial risks for those assets as well, the Eurosystem supports better and harmonised disclosures of climate-related data for them and, acting as a catalyst, engages closely with the relevant authorities to make this happen.

- **Risk assessment and management:** The Eurosystem will further enhance its risk assessment tools and capabilities to better include climate-related risks. For example, ECB analysis has shown that, despite the progress already achieved by the rating agencies, current disclosure standards are not yet satisfactory.

To improve the external assessment of climate-related risks, the Eurosystem will urge rating agencies to be more transparent about how they incorporate climate risks into their ratings and to be more ambitious in their disclosure requirements on climate risks. The Eurosystem is in close dialogue with the relevant authorities on this matter.

Additionally, the Eurosystem agreed on a set of common minimum standards for how national central banks' in-house credit assessment systems should include climate-related risks in their ratings. These standards will enter into force by the end of 2024.

Looking ahead, the Governing Council is committed to regularly reviewing all the measures outlined above. It will assess their effects and adapt them, if necessary: (1) to confirm that they continue to fulfil their monetary policy objectives; (2) to ensure – within its mandate – that the relevant measures continue to support the decarbonisation path to reach the goals of the Paris Agreement and the EU climate neutrality objectives; (3) to respond to future improvements in climate data and climate risk modelling or changes in regulation; and (4) to address additional environmental challenges, within its price stability mandate.

Companies and governments need to do their part to address climate risks by enhancing disclosures and following up on their commitments to reduce carbon emissions.

The decisions described above are part of the [climate action plan announced in July 2021](#). The ECB's work is progressing as outlined in the [climate roadmap](#), and may have to be aligned if and when the timetable in EU legislation changes.

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The ECB is also including climate change considerations in areas of its work besides monetary policy, including banking supervision, financial stability, economic analysis, statistical data and corporate sustainability. With this commitment, we aim to make a real difference in three ways: (1) by managing and mitigating the financial risk of climate change and assessing its economic impact, (2) by promoting sustainable finance to support an orderly transition towards a low-carbon economy and (3) by sharing our expertise to help foster wider changes in economic behaviour.

An overview of ongoing actions can be found in the ECB-wide climate agenda (see annex).

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ECB climate agenda 2022

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It is governments and legislators who are primarily responsible for tackling climate change and they who have the most appropriate tools to address this issue. Yet, we must all play our part in the fight against climate change and that includes the ECB.

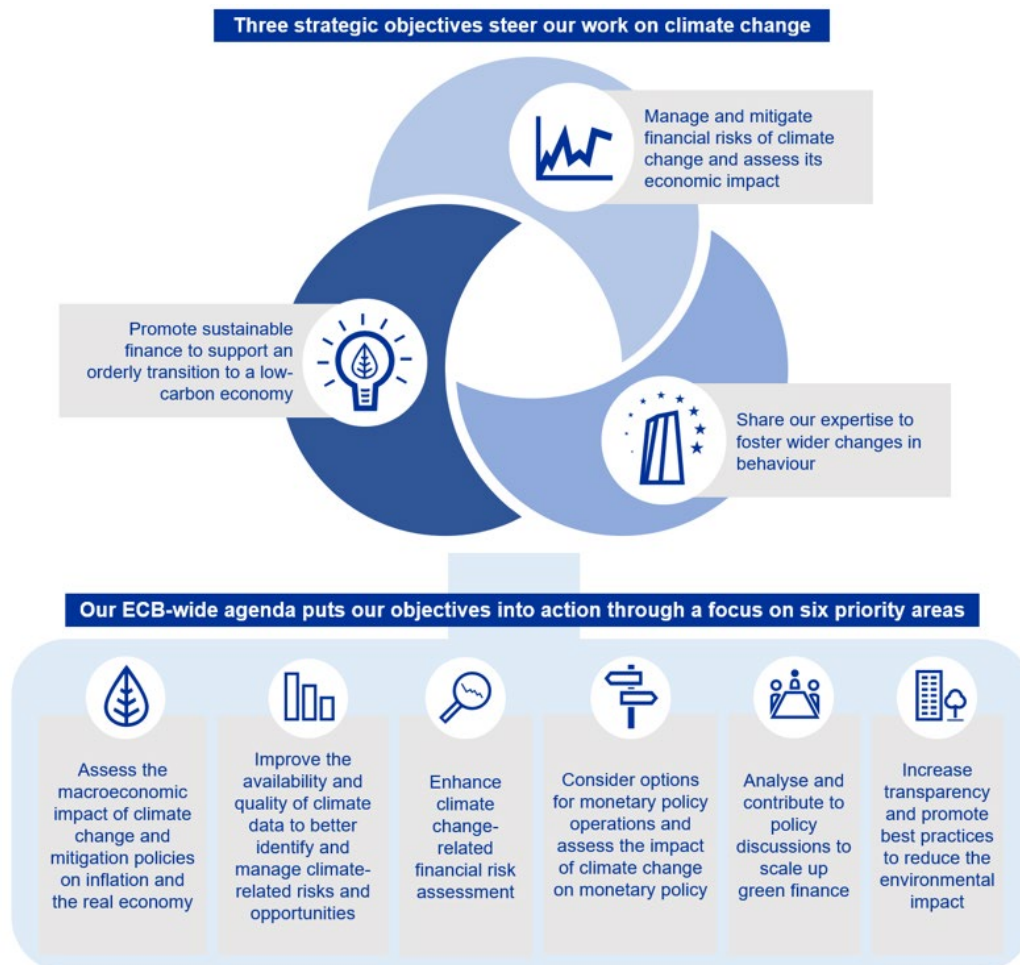
Climate change and the transition to a greener economy affect our primary objective of maintaining price stability due to their impact on our economy and on the risk profile and value of the assets on the Eurosystem balance sheet. As a supervisory authority, it is our duty to contribute to the safety and soundness of the banking sector by ensuring the industry has made adequate preparations to manage climate-related risk. Furthermore, as a European institution, acting within our mandate and without prejudicing our primary objective, it is our duty to play our part in supporting general economic policies which contribute towards the achievement of the EU's Treaty-based objectives. Such objectives include protecting the environment.

With this in mind, we at the ECB have three core objectives which steer our work on climate change: managing and mitigating the financial risks associated with climate change and assessing its economic impact, promoting sustainable finance to support an orderly transition to a low-carbon economy, and sharing our expertise to foster wider changes in behaviour. It is these objectives which help us to ensure that our policies are effective, legitimate and appropriate for a changing world.

To help us meet our objectives, we need a solid and thorough analysis of the impact of climate change. But we know that urgent action is needed and that time is of the essence. That's why we are striving to improve our models and to collect more data to better account for the risks stemming from climate change. This means that our strategy and actions in the face of climate change will naturally evolve over time.

Our ECB-wide climate agenda details the priorities and activities that will help us put these objectives into practice. It incorporates all of our ongoing climate change-related work, clustered around six strategic priority areas aimed at meeting our core objectives. The agenda will be updated regularly as actions are completed, allowing us to reflect on new developments in different areas as we go along. All of these actions combined will help us play our part in the fight against climate change by dealing with the task at hand, which is to prepare our economy for what is to come and to contribute to a more sustainable future overall.

Our strategic objectives and the ECB-wide agenda on climate change¹



1. Assess the macroeconomic impact of climate change and mitigation policies on inflation and the real economy

Action	2022	2023
A. Evaluate the impact of climate change mitigation policies on Eurosystem/ECB staff macroeconomic and fiscal projections *		
B. Include climate change considerations in macroeconomic modelling for the purpose of policy simulations *		
C. Assess the impact of energy transition (including carbon prices) on energy prices, inflation, output and monetary policy	<i>Recurring; regular publications</i>	
D. Assess the impact of climate change and mitigation policies on global commodity and financial markets		

¹ Actions that are included in the “[Detailed roadmap of climate change-related actions](#)” are marked with an asterisk (*).

E. Analyse the medium- to long-term economic impact of climate change and the green transition	Recurring
F. Monitor and contribute to discussions on climate change-related policies (in particular carbon pricing) within EU and international fora	Recurring

2. Improve the availability and quality of climate data to better identify and manage climate-related risks and opportunities

Action	2022	2023
A. Develop experimental data indicators for use in climate change-related analysis *		Develop statistical collections by 2024
B. Procure climate change-related commercial data for use by the ECB	Recurring	
C. Assess data for use in transition and physical risk analysis	Recurring	

3. Enhance climate change-related financial risk assessment

Action	2022	2023
A. Develop and perform a (pilot) climate stress test of the Eurosystem balance sheet *		Regular climate stress testing
B. Review and evaluate climate change-related risks in credit ratings; develop minimum standards for in-house credit assessment systems *		Introduce requirements into Eurosystem framework, if necessary
C. Monitor climate change-related risks for the financial system	Recurring; biannual publications	
D. Develop and perform climate stress tests of the financial system	Macroprudential and supervisory stress tests	Fit-for-55 package stress test
E. Conduct supervisory assessments and follow-ups in respect of banks' climate risk management capabilities (including a thematic review of climate-related and environmental risk, a targeted review of commercial real estate, and on-site inspections)	Feedback letters and possible requirements for banks	Regular supervisory assessments

F. Develop and share best practices with regard to banks' climate risk strategies, governance, risk management and disclosures	Recurring; regular publications
G. Assess and follow up on banks' alignment with ECB supervisory expectations in respect of climate change-related disclosures and compliance with regulatory standards	Recurring; regular publications and feedback letters for banks
H. Fully integrate climate risks into supervisory methodologies and processes	Recurring; regular publications
I. Contribute to policy development to integrate climate change-related risks into the prudential framework	Recurring; regular publications







4. Consider options for monetary policy operations and assess the impact of climate change on monetary policy

Action	2022	2023
A. Introduce climate change-related disclosures as an eligibility requirement in the collateral framework and asset purchases *	Design policies	Adaptation period (implementation dependent on the timeline of the Corporate Sustainability Reporting Directive)
B. Climate change-related risks in the collateral framework: consider policy proposals *		Regular reviews and adjustments, if warranted
C. Consider climate change in corporate sector asset purchases *	Develop proposals	Adapt framework
D. Assess the impact of climate change on the monetary policy stance and transmission mechanism (as a sub-item of point 1B) *		

5. Analyse and contribute to policy discussions to scale up green finance

Action	2022	2023
A. Assess the role of green financial instruments and investors in financing the transition to a net-zero emissions economy, and other related policies	Recurring; regular publications	
B. Research the potential role of central banks in financial markets and green innovation		
C. Monitor and contribute to EU-wide and international policy discussions to scale up green and sustainable finance, including by carrying out analytical work to inform the ECB's policy positions	Recurring	

6. Increase transparency and promote best practices to reduce the environmental impact

Action	2022	2023
A. Disclose climate change-related information about the corporate sector purchase programme * and Eurosystem euro-denominated non-monetary policy portfolios		Annual publications 
B. Invest the ECB's non-monetary policy portfolios in a sustainable and responsible manner	Recurring; annual targets 	
C. Produce and report the ECB's corporate sustainability disclosures	Recurring; annual publications 	
D. Achieve the ECB's Paris Agreement-aligned corporate sustainability targets	End goal in 2030; annual publications 	
E. Increase the environmental sustainability of the cash cycle	Recurring 	
F. Ensure effective and transparent communication with key audiences on climate change-related matters	Recurring; regular publications 	

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For specific terminology please refer to the [ECB glossary](#) (available in English only).