



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

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Ms Dolors Montserrat
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 21 July 2022

Re: Petition No 0429/2017 from Harald Bolsinger (German) on the compliance of the European Central Bank with the EU Charter of Fundamental Rights

Honourable Member of the European Parliament, dear Ms Dolors Montserrat,

Thank you for your letter regarding Petition No 0429/2017 on the compliance of the European Central Bank (ECB) with the European Union (EU) Charter of Fundamental Rights (the Charter).

The ECB's previous letter replying to this petition, dated 5 August 2020, explained the objectives and the limits established by EU law with regard to the ECB's actions. While reiterating those considerations, in reply to the specific point on sustainability raised by the petitioner, recent developments in ECB policies and actions may merit further clarification. The petitioner refers to statements made by members of the Executive Board – the ECB recognises the urgency and importance of climate change and has committed to actively contributing to efforts at the EU level in this regard. Reflections on climate change and environmental sustainability therefore featured prominently in our monetary policy strategy review of 2020-21.¹ As a result, the Governing Council of the ECB decided on a comprehensive action plan to systematically incorporate climate change considerations into our monetary policy framework, in line with the ECB's mandate. This action plan includes expanding our analytical capacity in macroeconomic modelling, statistics and monetary policy with regard to climate change, as well as incorporating climate change considerations into monetary policy operations in the areas of

¹ 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?f26c937c8b72f2d321adc33893e17197.

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disclosure, risk assessment, the collateral framework and corporate sector asset purchases.² The ECB, together with the Eurosystem, has worked intensely over the last year to deliver on the commitments set out in the action plan. On 4 July 2022, the ECB announced its decision to account for climate change in our corporate bond purchases, collateral framework, disclosure requirements and risk management.

The Governing Council has decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios, to introduce limits on carbon-intensive corporate assets in its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices in relation to climate change. Corporate bond holdings in the Eurosystem's monetary policy portfolio will be tilted towards issuers with better climate performance, through the reinvestment of the sizeable redemptions expected over the coming years. The share of assets issued by corporate entities with a high carbon footprint that can be pledged as collateral by individual counterparties in Eurosystem credit operations will be limited. Furthermore, for marketable assets and credit claims from companies and debtors subject to the Corporate Sustainability Reporting Directive (CSRD) – once fully implemented – the Eurosystem will only accept them as collateral in Eurosystem credit operations if these entities comply with the CSRD's requirements. The Eurosystem will further enhance its risk assessment tools and capabilities to better include climate-related risks by urging credit rating agencies (CRAs) 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, and through common minimum standards for the inclusion of climate-related risks in national central banks' in-house credit assessment systems.

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 these emissions.³

These steps are an example of how the ECB, within the limits of its mandate, is participating in the efforts made by the competent authorities to take action in an important area that is also covered by the Charter.

With regard to compliance with the Charter more broadly, the Eurosystem's monetary policy framework is based on clear and transparent rules which are available to Eurosystem counterparties, issuers of Eurosystem eligible collateral, other interested stakeholders and the general public. The principles of an open market economy with free competition, favouring an efficient allocation of resources, proportionality and equal

² See "ECB presents action plan to include climate change considerations in its monetary policy strategy", *press release*, ECB, 8 July 2021, and the associated annex entitled "Detailed roadmap of climate change-related actions", both available at: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html.

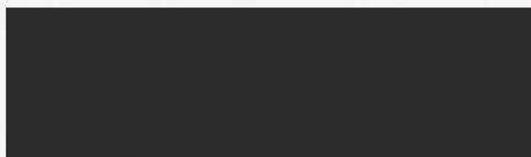
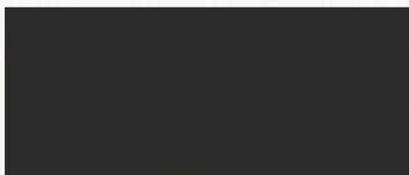
³ For more detailed information see "ECB takes further steps to incorporate climate change into its monetary policy operations", *press release*, ECB, 4 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704~4f48a72462.en.html>. For more information on the ECB's climate agenda, see "ECB climate agenda 2022", available at: https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704_annex-cb39c2dcbb.en.pdf.

treatment are particularly important in the implementation of the ECB's mandate. On the specific point of the collateral framework referred to by the petitioner, as already explained, the eligibility of assets as collateral for credit operations is primarily guided by considerations regarding the monetary policy objective and appropriate risk management, in order to shield the Eurosystem from potential losses. Ensuring the adequacy of collateral is explicitly required by Article 18.1 of the Statute of the ESCB, which expresses the broader principle of sound management of public finances. The risk management tools include well-established credit assessments produced by accepted external CRAs, alongside other sources. Each accepted CRA must fulfil a number of regulatory and operational requirements and is subject to regular checks by the Eurosystem to dynamically assess its performance in correctly assessing credit risks. Such checks are based on objective (quantitative) data on credit events that provide a basis for statistical tests rather than on broader assessments of the issuer's economic activities. By contrast, no such mechanism exists for ethical or sustainability criteria including those reflecting the Charter, which by their very nature involve broader assessments and balancing acts that go beyond credit risk assessment. Moreover, as mentioned in the previous letter replying to this petition, in line with the principles of institutional balance and the conferral of powers, the ECB cannot replace other authorities responsible for ensuring the compliance of private parties with their legal obligations. In addition, the ECB cannot take action to extend the Charter's scope of application.

In summary, to the extent clear and uniform disclosure and reporting obligations exist, the ECB, within the scope of its mandate, will consider them. On precisely this point, the Eurosystem will urge CRAs 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. However, at this stage the precise definition of compliance with the wide-ranging set of legal requirements indicated in the letter from the petitioner can hardly be assessed using the instruments at the disposal of the ECB. An authoritative assessment of such compliance can only be made by the competent authorities, including national and EU courts, which offer specific remedies for potential violations. Hence, the ECB does not see a contradiction between its acceptance of CRAs and the fact that it cannot defer the hypothetical checks of issuers' compliance with the Charter to the findings of private self-authenticated sources such as those proposed by the petitioner.

We trust that the above considerations, in addition to those provided in the reply of 5 August 2020, further clarify the ECB's position on the matter and address the concerns raised in the letter from the petitioner.

Yours sincerely,



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