ECB-UNRESTRICTED

DIRECTORATE GENERAL SECRETARIAT

[redacted]

31 March 2022

Reference: LS/PS/2022/20

Request for public access to ECB documents

Dear Mr [redacted],

On 20 January 2022 we replied to your request for access to (i) *"analysis, reports, etc. on the World Climate Conference in Glasgow (COP26) from 1 October 2021 to the present day"*; and informed you that upon completion of that first part of your request, we would proceed with the assessment of point (ii) of your request, namely *"interview preparation documents, briefings, etc. for members of the Executive Board on climate change since 1 January 2021".*

On 16 February 2022, in line with Article 7(3) of Decision ECB/2004/3[1] on public access to ECB documents and owing to an increased workload we extended the stipulated time limit for our reply to point (ii) of your request by 20 working days. On 17 March 2022, we informed you that the finalisation of your reply should be concluded in the coming days. We apologise for the inconvenience this additional delay might have caused and we hereby provide you with the assessment of point (ii) your request.

1. Identification and assessment of the requested documents

After having carefully examined your request in line with Decision ECB/2004/3, the ECB has identified one internal ECB document of relevance to your application, namely a briefing note prepared, by the ECB Climate Change Centre, for interview with media, on climate change, in October 2021.

Following a thorough assessment of the identified document, in line with Decision ECB/2004/3, we are glad to inform you that the ECB has decided that the identified document can be fully disclosed (Annex I).

2. Additional remarks

The ECB has not identified any other document/briefing on interview preparation dedicated only on climate change. Nonetheless, in the spirit of transparency and good governance, we have compiled in Annex II the key

[1] Decision ECB/2004/3 of 4 March 2004 on public access to European Central Bank documents (OJ L 80, 18.3.2004, p. 42)

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speaking points on climate change used in various speaking engagements/interviews of ECB Executive Board members, which took place during the period covered by your application.

3. Final remarks

For the sake of good order, we would like to inform you that, the speaking points disclosed to you served as reference for Executive Board members, to be used as appropriate, depending on the context of the questions asked and/or the topic of the exchange at the specific point in time of the speaking engagement.

Moreover, in line with Article 10 of Decision ECB/2004/3, *"documents released in accordance with this Decision must not be reproduced or exploited for commercial purposes without the ECB's prior specific authorisation. The ECB may withhold such authorisation without stating reasons".*

Yours sincerely,

[signed]	[signed]
[redacted]	[redacted]
Director General Secretariat	Head of the Compliance and Governance Division

Encl.

Annex I to LS/PS/2022/20

Annex II to LS/PS/2022/20

Annex I to LS/PS/2022/20

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Briefing note, prepared by the Climate Change Centre, for interview on climate change, in October 2021

- Climate change is the greatest societal challenge of our time. **All institutions have a duty to ask themselves how they can contribute**, and this includes central banks, within their mandates.
- Climate change **matters for what we – as a central bank – do: keeping prices stable**. That's why we need to take it into account:
  - Climate change – both directly through the physical effects of climate change, and indirectly through the policies put in place to address it – **has a profound impact on how the economy functions**. Take the changing and more volatile weather conditions due to climate change: they affect economic activity and prices like harvests and food prices. But think also at mitigation policies such as carbon pricing, and its potential impact on relative prices and inflation. We need to better understand those implications so that we can better account for them in our economic analysis, forecasting, risk assessment, and the conduct of monetary policy.
  - **Climate change comes with risks**. Climate change and the transition to a carbon-neutral economy may disrupt some regions and industries more than others. This is likely to change the value and riskiness of some of the assets we hold on our balance sheet. So, we (and financial institutions more generally) need to adapt our risk management framework accordingly.
  - **Finally, the ECB may – through its policies – support the green transition, within its mandate**. The EU Treaty mandates that the ECB shall support the general economic policies of the Union, which give high priority the protection of the environment. It is our duty to reflect how we can support the EU policies addressing climate change within our mandate.
- **We need to take climate change risks into account when designing and implementing our monetary policy**. The action plan we announced at the end of our strategy review gives more details of the type of actions we are considering and their timeline. This will include enhancing up our macroeconomic modelling to account for climate change, developing the

necessary indicators to better measure the effects of climate change, introducing climate-related disclosure requirements, and including climate risks in our collateral framework.

- Moreover, in terms of financial stability, we know from our economy-wide climate stress test that without policies to transition to a greener economy, the physical risks of climate change will only increase over time. It is clear that firms and banks clearly benefit from adopting green policies early on to foster the transition to a zero-carbon economy.
- That's why **we challenge banks to manage and disclose their climate-related and environmental risks,** by issuing clear supervisory expectations and asking them to complete self-assessments in this regard.
- Nevertheless, **we are not the drivers of the bus**. Although the **ECB can play a supportive role in fighting climate change** within its mandate, the primary responsibility of tackling this challenge lies with governments and parliaments, who have the competence and authority to enact policies in this regard.
- **Our action plan on climate change and monetary policy includes the consideration of how we could include climate-related eligibility criteria in our corporate asset purchases**, and we are currently analysing options in this regard.
- As **an example of a possible action**, we could look at whether the issuers of corporate bonds that we hold or want to buy are complying with the Paris Agreement or similar goals to reduce emissions.
- The impact of actions on asset purchases are bound to be complex and therefore not something that we can implement overnight. This is because we will **first have to carefully assess the possible effects.**
- Buying fewer or even no bonds at all from high-emitting companies could help redirecting funds to low-carbon activities. But – it could also hinder transition away from carbon. This would happen if it takes funding away from large polluters that have made firm and near-term investment plans to reduce their carbon footprint. Here we think careful analysis is just very important to find a suitable solution.
- We at the ECB take climate change very seriously, and this is reflected in the comprehensiveness of the action plan that we are committed to deliver.
- At the same time, it is important to realise that central banks cannot be the frontrunners in combatting climate change. This is because other actors, and in particular elected governments, have more powerful tools at hand to combat climate change than we as central banks do. Governments have signed the Paris Agreement, governments make climate acts, governments tell us that we have to phase out diesel cars or coal fired engine plants. That's

not us, we are not a climate policymaker, we are a central bank and a supervisor. So in that sense **we are not a policymaker, but we are a policy taker.**

- We are convinced though that every policymaker needs to contribute to tackling this global challenge, with the tools that it has at hand and the mandate it has been given.
- That **mandate sets the boundaries to our action**: In short, we have a primary objective. And the **primary objective is price stability**. **Second**, we also must **support the economic policies in the European Union**, as long as it does not hamper our primary objective of getting to the price stability objective. And this latter part sets the limits to our action. And third, **we also have to be proportional in our action**. So whenever we take measures, we have to think about the goal they serve, the aim that we have. So if we have a toolbox full of potential measures, then we need to take to measure that gets us to the goal, but doesn't go further than that.
- That said, I believe that our action plan is very comprehensive and powerful. Just thinking about the asset purchases, we have quite some points there:
- First, **we will introduce disclosure requirements for private sector assets as an additional eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases**. Such requirements will take into account EU policies.
- Second, and as already mentioned, we will assess how to further adjust the framework guiding our corporate bond purchases to incorporate climate change criteria in line with our mandate. These criteria will include the alignment of issuers with, at a minimum, EU legislation implementing the Paris agreement, measured through climate change-related metrics or commitments of the issuers to such goals.
- Third, we will start disclosing climate-related information of our corporate sector purchase programme by the first quarter of 2023.
- Colleagues at the ECB and in the Eurosystem central banks are currently working intensively on these topics.
- Finally, I should note that we are already taking climate change into account in our operations to some extent. We buy green bonds, for example, and accept bonds that have a payment structure linked to some acceptable sustainability targets as collateral and in asset purchases since beginning of 2021, as long as they fulfil the other necessary criteria. The ECB also incorporates certain sustainability aspects in its own funds and staff pension fund portfolios. And we have started taking climate risks into account in our due diligence procedures for corporate bond asset purchases.

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In fact it is clear – it is laid down in the Treaties. Our main objective is price stability and catering for the preconditions required for the pursuit of this objective falls within our mandate, as confirmed by the ECJ.

- Supporting general economic policies in the Union is defined in the Treaties as an obligation for the ECB, as long as it does not hamper the ultimate goal of price stability.
- This means that, if we were faced with a choice between two monetary policy measures that have the same impact on price stability, we would have to choose the one that is more in line with EU policies. In the case of climate, we would have to choose the greener option.
- Discussion on the relevance of climate change for the secondary mandate
- Circle between obligation to act under secondary mandate and primary mandate
- We have to consider the implications of both our primary and our secondary mandate.
- More generally, **I believe that there is an obligation for all policymakers to explore their role in tackling climate change.** The urgency of the topic, also due to the partial irreversibility of climate change and the significant costs of delaying action, requires a concerted and broad-based societal effort to accelerate the green transition.
- Central banks therefore have a role to play in the fight against climate change.
- [*Based on the ECB Occasional Paper*] **According to the literature, climate policies have been found to have at best an ambiguous impact on inflation**. Among the factors at play impacting relative prices are *inter alia* the type of climate policies itself, the policy uncertainty related to future climate policy action, the technological changes triggered by green investment and their impact on productivity and potential growth, and finally, possible shifts in consumer preferences. All these forces together suggest that **the risk of a trade-off between climate policies and price stability in the medium term seems relatively contained**.
- The ECB needs to account for climate change to **fulfil its primary objective of maintaining price stability and to minimise the risks for its balance sheet** *[see answer to question 1]***.** So, taking into account climate change considerations is not an option, but a requirement for a central bank whose primary objective is price stability in order to fulfil its mandate and comply with EU law.
- We also have the mandate to support general economic policies in the Union, as long as this does not prejudice the objective of maintaining price stability. These policies may pursue the objectives of the Union relating to environmental protection and climate change, which are of high priority for the EU as a whole.

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- The Treaty provisions also imply that, in the actual implementation of monetary policy decisions aimed at maintaining price stability, the Eurosystem should take into account the broader economic goals of the Union.
- When we announced our new strategy, we indicated that we will take into account how to support general economic policies in the EU, without prejudice to price stability. This implies that, **when faced with the choice between two policies equally supporting price stability, we will choose that which could best support the economic policies of the EU.**
- However, the ECB **can only support policies made by the competent authorities** that have the main responsibility in these areas. This means that it is not up to the ECB to prioritize one policy objective over another. The ECB can only support the general economic policies which are pursued by the EU as a whole.
- Hence, on the one hand, 'too little' would mean neglecting to include climate change considerations into all areas of our work, thereby compromising our mandate of maintaining price stability and failing to support the general economic policies of the EU.
- On the other hand, 'too much' would mean adopting measures and policies outside the remit of our mandate. The ECB should play a supportive role in the fight against climate change, but its measures cannot precede those of the competent authorities in this regard.

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- Climate change is the greatest societal challenge of our time.
- Governments and parliaments are in the lead, but all institutions and individuals have a duty to contribute, including central banks.
- Without a large coalition of different parties supporting governments, our climate objectives will not be achieved.
- Climate change directly and indirectly affects our work: It has a profound impact on how the economy functions (volatile weather conditions, physical risk), affecting economic activity and prices. But climate change and the transition to a net zero economy also brings risks: it can disrupt some regions and industry more than others. So, we need to adapt our risk management.
- The risk of a trade-off between climate policies and price stability seems relatively constrained, especially when moving beyond the short-term horizon.

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- Tackling climate change will mean taking difficult decisions and facing tough trade-offs. That is why it is important to better understand the risks to the economy, both directly and indirectly, that come from climate change, so we are better prepared to face those difficult decisions
- We are increasingly witnessing climate related natural disasters not only far away but also very close to home: wildfires in Greece, Italy and Spain and floods in Germany.
- Although there is widespread recognition to act, growing CO2-emissions show that the commitment to act has not yet translated into the policy action needed to translate promises into tangible results. I am hopeful for the results at the COP26 in Glasgow. All leaders should think about the future: What their countries will look like if we don’t change course, how their grandchildren will live.
- The EU has committed to a reduction of greenhouse gas emissions by 55% by 2030 and to carbon emission neutrality by 2050, compared to emissions in 1990.

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- Climate change is one of the greatest challenges of our time and there is now broad agreement that we need to act. But that agreement needs to translate into concrete measures more urgently. Globally, the past six years were the warmest six on record and 2020 was the warmest ever in Europe.
- Global leaders in 2015 agreed on the goal in Paris. But still growing CO2-emissions show that Paris didn't lead to the needed changes in reality. It's for the climate conference in Glasgow to agree on concrete measures and not to waste more time.
- Governments and parliaments have the primary responsibility to act on climate change. But there are several areas in which the ECB can contribute. Within our mandate, we are committed to considering the impact of climate change in our monetary policy.
- Climate change risks have implications for both price and financial stability, and they can affect the value and the risk profile of the assets held on the Eurosystem's balance sheet.
- Climate change has a profound impact on how the economy functions. Volatile weather conditions can affect economic activity and prices like harvests and food prices, for example.
- As part of our recent strategy review, all 19 euro area central bank governors and the six ECB Executive Board members have unanimously decided on a set of actions to incorporate climate change considerations into our policy.
- Among other things, we will ensure that climate change is considered in our models, risk assessment and collateral framework. We will also introduce additional disclosures about climate risk and incorporate climate change criteria into our framework that guides the allocation of private sector asset purchases.
- To assess the exposure of our balance sheet to climate risks, we will start conducting climate stress tests, building on the methodology of our economy-wide climate stress test from this year.

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- As shown in the recent report of the International Panel on Climate Change (IPCC), human-induced climate change has already had profound impacts on Earth's climate, which are unprecedented in scale and severity. Without urgent action, we are likely to breach the goal of the Paris Agreement of keeping the increase in global temperatures below 2ºC, posing unprecedented and irreversible risks to human civilisation.

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- The prime responsibility lies with governments and political authorities. But in the face of this challenge, every institution, each within their respective mandate, must reflect on how climate change affects their work and how they can best contribute. And surely climate change matters for central banks.
    - Climate change affects how the economy functions, with implications for inflation. The recent floods in Germany, with their immediate economic disruption but also with the expected sizable fiscal stimulus of the reconstruction, is a clear example of how climate events can have sizeable macroeconomic effects. Better understanding these dynamics is necessary to make our economic analysis, forecasting, risk assessment, and the conduct of monetary policy fit for purpose in the new economic environment. Transition policies, most notably carbon pricing and/or equivalent schemes, will also impact inflation especially if the transition is not orderly implemented.
    - More generally, rising global temperatures and more frequent natural disasters have consequences for the conduct of monetary policy. For instance, it may decrease the equilibrium interest rate around which central banks calibrate their policies. Under plausible scenarios, the ability of central banks to react to standard business cycle fluctuations and the effective transmission of monetary policy may be impaired, even though there is a lot of uncertainty on the overall effect as we cannot rule out that the technological progress and the investment needs to support the transition may have a countervailing impact.
    - Third, climate change poses financial risks. The transition to a carbon-neutral economy and climate hazards may disrupt industries and regions. This can affect the value and riskiness of some of the assets financial institutions hold on their balance sheet. So, all financial actors need to adapt their risk management frameworks accordingly. The ECB, which must contribute to financial stability and is responsible for the supervision of credit institutions, has a clear role in ensuring that these financial risks are properly managed and do not threaten the financial stability of the euro area. Related to this, the ECB will need to take into account that changes to the functioning of the financial system may have an impact on the transmission of monetary policy.
    - Finally, the ECB must also manage better the risks posed by climate change to its own balance sheet, which might require adjustments in our collateral framework and asset purchases. But the ECB can also play a catalytic role, supporting transparency and improve the pricing of climate related risks, which is of benefit to us and other financial institutions when assessing and managing climate change risks.

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- We recently concluded our monetary policy strategy review. Based on this the Governing Council of the European Central Bank has decided on a comprehensive action plan, with an ambitious roadmap to further incorporate climate change considerations into our policy framework.
- Looking ahead, and as stated in the ECB's action plan, we will introduce disclosure requirements for private sector assets as an additional eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases. Such requirements will take into account the current developments in the relevant EU policies on disclosure.
- Ratings provided by credit rating agencies are key inputs for many investors to assess the overall riskiness of assets and also a key component to the prudential framework for banks and insurers.
- Credit rating agencies must incorporate all the relevant risks in their assessments. As far as we can tell, many of them are in the process of improving their analysis of climate change-related risks.
- The ECB published in 2020 its Guide on climate and environmental risks, outlining its supervisory expectations on how banks should manage and disclose their climate related risks. ECB Banking Supervision has already started a supervisory dialogue with the institutions under its supervision.
- Preliminary insights based on banks' self-assessments show that much more progress is needed. None of the banks under ECB supervision meet all ECB expectations and several are still a long way off. All banks have several blind spots and may already be exposed to material climate risks without appropriate risk management risks in place. More than half have no approach for assessing the impact of climate risks.
- The good news is that almost all banks have plans to address these risks, and there are some areas where banks have made substantial progress: many institutions have already started to progressively improve their practices, regarding climate due-diligence, portfolio limits, or developed methodologies to identify corporate clients with high sensitivity to climate transition risks.
- ECB Banking Supervision is looking at these developments closely and will make sure that bank make expeditious progress in embedding climate risks into their organisations, by following up with supervisory requirements where needed. In 2022, it will conduct a full supervisory review of banks' climate risk practices.
- Climate risks are financial risks. Therefore, considering them should become part of regular risk-management of credit institutions. Banks should take appropriate measures to mitigate and properly manage them. This is necessary to ensure banks' long-term financial soundness.
- Regarding the modelling of the impact of climate risks for the financial sector, the ECB has been at the forefront of the analytical efforts and has already developed an advanced forward-looking

economy-wide climate stress-test to assess the exposure of euro area banks to future climate risks.

- The exercise analyses banks' resilience by assessing their counterparties under various climate scenarios. Relying on datasets and models developed by the ECB, it encompasses approximately four million companies worldwide and 2000 banks and assesses their exposure to climate risks over a 30-year horizon. The results will be published after the summer.