



EUROPEAN CENTRAL BANK
EUROSYSTEM

Christine LAGARDE
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European Parliament
60, rue Wiertz
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Frankfurt am Main, 26 March 2021

L/CL/21/39

Re: Your letter (QZ-003)

Honourable Members of the European Parliament,

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 19 January 2021.

Let me first emphasise that climate change is very relevant to our mandate. As I noted in my recent reply to MEP Ferber¹ and reiterated in my recent appearance at the European Parliament plenary debate on the ECB Annual Report², the scale and irreversibility of the consequences of climate change call for immediate action from all stakeholders, each within their own areas of competence. Climate change may affect our economy in ways that could pose a severe threat to price and financial stability in the medium and long term, especially if not addressed in a timely and satisfactory manner. As you know, in the context of its strategy review the ECB is reflecting on the emerging risks related to climate change in the pursuit of its Treaty objectives. As climate change may also lead to financial risks, this will require us to adapt our risk management frameworks.

¹ See “Letter from the ECB President to Mr Markus Ferber, MEP, on climate change”, ECB, 5 February 2021, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter210205_Ferber~382cd05490.en.pdf.

² See “Introductory statement by Christine Lagarde, President of the ECB, at the plenary session of the European Parliament”, 8 February 2021, available at: <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210208~296c27d246.en.html>.

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As part of the strategy review, we are assessing potential avenues for developing the risk management capabilities that are needed for us to evaluate the extent to which climate-related financial risks have an impact on the ECB's balance sheet. This will also inform future decisions on how to manage and disclose these risks. As you point out, the Eurosystem has publicly stressed the need for better climate-related information, first and foremost through high-quality disclosures on climate-related financial information from companies and other relevant entities.³ Better disclosures may help to address the mispricing of carbon emissions and thereby help the financial sector to play its critical role in enabling the green transition. Enhanced information is a prerequisite for properly identifying and addressing climate-related risks, including on our balance sheet.

In order to improve its understanding of climate-related risks and to promote disclosures, on 4 February the Eurosystem announced its agreed common stance for climate change-related sustainable investments in non-monetary policy portfolios⁴. It aims to start making annual climate-related disclosures for these portfolios within two years. The initial framework for the disclosures will follow the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)⁵. The ECB's ongoing strategy review provides an opportunity to further reflect also on the possible need for enhanced disclosure.

Yours sincerely,

[signed]

Christine Lagarde

³ See "Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the Review of the Non-Financial Reporting Directive", ECB, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf.

⁴ See the press release entitled "Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios", ECB, 4 February 2021, available at: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210204_1~a720bc4f03.en.html.

⁵ The TCFD was established in 2015 by the Financial Stability Board to develop recommendations for more effective climate-related disclosures. It published its final recommendations in June 2017. See: <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>.

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