



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Paul Tang
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 22 July 2022

L/CL/22/190

Re: Your letter (QZ-019)

Honourable Member of the European Parliament, dear Mr Tang,

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 13 June 2022.

You refer to the potential under-exploitation of Eurosystem in-house credit assessment systems (ICASs) in supporting the assessment of climate-related risks. I would like to assure you that the European Central Bank (ECB) is fully committed to, and actively working on, further harmonising the Eurosystem's framework for ICASs on climate risk assessment. Many Eurosystem national central banks have already developed approaches for incorporating climate-related risks in their ICAS analyses of company creditworthiness; these central banks are now further intensifying their efforts in this area.

More specifically, let me call attention to the fact that, through its climate action plan,¹ the ECB has pledged to incorporate climate change considerations into its monetary policy framework, which includes integrating climate-related risks into credit ratings for collateral and asset purchases. The climate action plan envisaged that minimum standards would be developed to incorporate climate risk into Eurosystem-internal credit ratings. Finalising the minimum standards for ICAS ratings this July constituted an important milestone in incorporating climate change risks into the non-marketable assets space of the Eurosystem's collateral framework.² These

¹ The ECB action plan to include climate change considerations in its monetary policy framework was published in July 2021.

² See "ECB further incorporates 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>.

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minimum standards integrate the analysis of climate change risks into the regular internal rating process, ensuring it meets the same quality standards as the assessment of any other risk factor. They also establish requirements for data sources, methodology and processes.

Eurosystem ICASs aim to continuously promote best practices for incorporating climate change risks into credit ratings. The increased availability of reliable and comparable data and improved methods may also contribute to that evolution in the coming years.

Beyond enhancing its risk assessment tools and capabilities to better quantify climate-related risks, the Eurosystem is adopting measures to further limit its climate exposures. To that effect, the ECB recently decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. For example, it will adjust its collateral framework and the corporate bond holdings in the Eurosystem's monetary policy portfolios. These measures aim to mitigate climate-related risks in the Eurosystem balance sheet, complementing the actions taken on risk assessment.

Finally, you allude to the ECB's reliance on a small number of rating agencies. As communicated to you and other Honourable Members of the European Parliament in an earlier letter from former ECB President Mario Draghi, the Eurosystem has continuously enhanced its due diligence processes to avoid mechanistic reliance on external ratings.³ In addition, in 2016, the Eurosystem published more detailed criteria for accepting rating agencies.⁴ These criteria are designed to ensure that rating agencies have broad credit risk expertise and a clear track record. Moreover, these requirements apply to all credit rating agencies accepted by the Eurosystem. The Eurosystem is also continuously carrying out analyses to better understand the ratings, rating processes and methodologies of the rating agencies that it accepts.

Yours sincerely,

[signed]

Christine Lagarde

³ See *Letter from the ECB President to Mr Brian Hayes, Mr Paul Tang, Mr Sven Giegold, Mr Wolf Klinz, Mr Ashley Fox, MEPs, on the Eurosystem credit assessment framework*, ECB, 26 October 2018, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter181116_Hayes_Tang_Giegold_Klinz_Fox.en.pdf?811e816c4381bfa8805fa37339bf5060.

⁴ See "Eurosystem publishes more detailed criteria for accepting rating agencies", *Economic Bulletin*, Issue 1, ECB, 2016, available at: https://www.ecb.europa.eu/pub/pdf/other/eb201601_focus03.en.pdf.

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