



EUROPEAN CENTRAL BANK

EUROSYSTEM

Climate change considerations in the ECB's collateral framework

Money Market Contact Group



07/12/2021

Jana Aubrechtova / ECB Market Operations

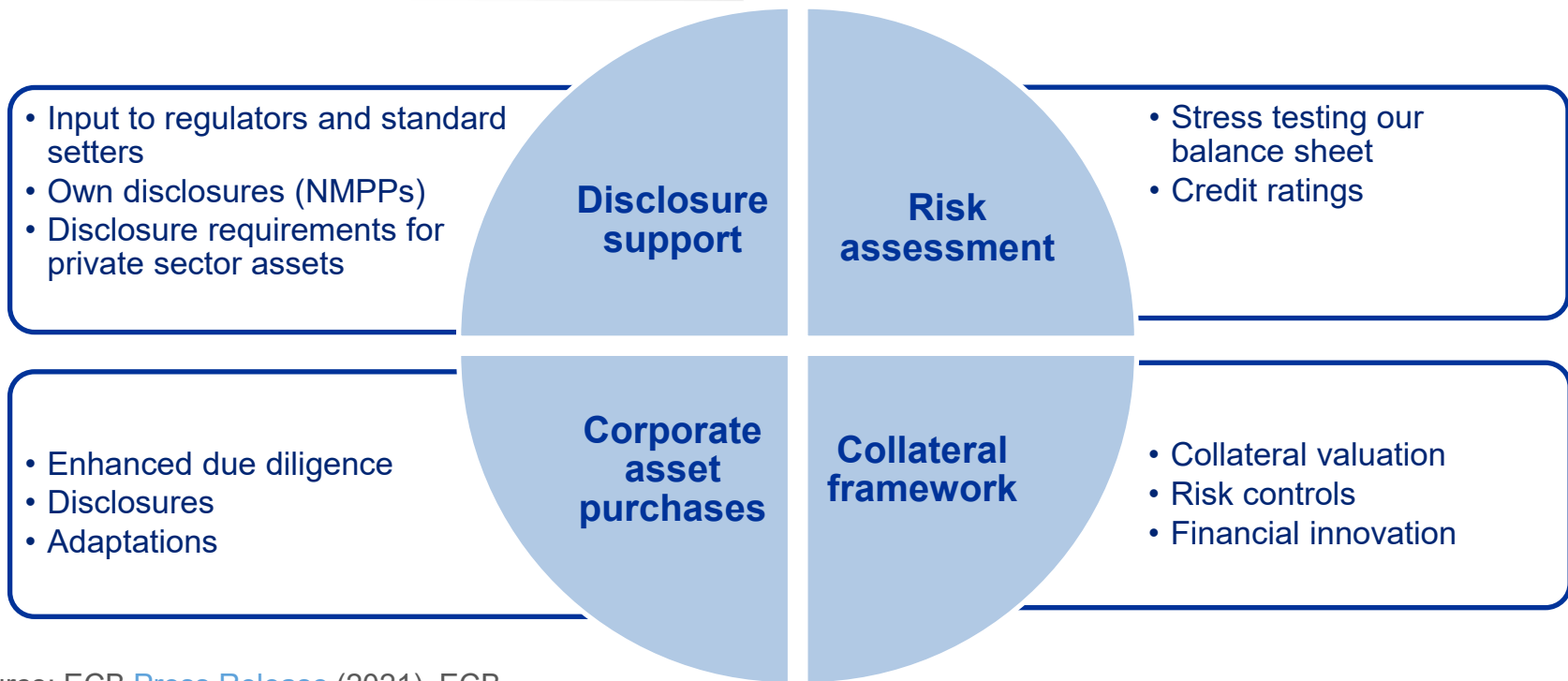
Why does the climate change matter for monetary policy?

Reasons for the ECB to act:

1. Climate change and policies affect the **outlook for price stability** through their impact on macroeconomic indicators, financial stability, and the **transmission of monetary policy**.
2. Climate change and policies affect the value and the risk profile of the **assets held on the Eurosystem's balance sheet**.
3. "Without prejudice to the objective of price stability", the Eurosystem "shall support the **general economic policies in the Union** with a view to contributing to the achievement of the objectives of the Union" (Art. 127).

Source: ECB [Press Release](#) (2021), ECB Occasional paper on [Climate change and monetary policy in the euro area](#) (2021)

Climate action in monetary policy implementation



Source: ECB [Press Release](#) (2021), ECB Occasional paper on [Climate change and monetary policy in the euro area](#) (2021)

Eurosystem collateral framework

Eligibility

Ensures **effective conduct of monetary policy while mitigating credit, legal and operational risks**. Eurosystem Credit Assessment Framework (ECAAF) constitutes a key element.

Valuation

Recovery value that can be obtained by liquidating an asset in the event of a counterparty default.
Relies on market prices as a starting point for valuing all eligible marketable assets; internally derived for less liquid assets.

Haircuts

Mitigates the market, liquidity and credit risks that can hit the value of the collateral held by the Eurosystem in the event of a counterparty default.

Limits

Restrictions on the use of certain assets as collateral when the value would likely decrease dramatically in the event of a counterparty default (e.g. 'wrong way' risk).

Do **climate-related financial risks** warrant changes to methodologies and/or the treatment of certain assets?

Questions being explored by the ECB

1. What **data do market and the ECB need** to incorporate climate risk considerations?
2. Are climate risks and externalities **adequately priced by the market?**
3. How do **credit rating agencies incorporate CC** in ratings and disclosures?
4. What is the effect of climate on the **risk in Eurosystem balance sheet and the risk profile of the assets posted as collateral?**
5. Within the ECB's mandate, which adjustments in its collateral framework would be most effective in **supporting the Union's general economic policies** in the area of environmental sustainability?

Relevant in particular for:

*Own disclosures
Disclosure requirements*

Market neutrality and efficiency concepts; Collateral valuation methodology

Credit ratings for collateral and asset purchases

Climate stress testing; Review of risk controls; Corporate asset purchases

Assessment of green/sustainable financial innovation

Issues for discussion

1. Do you consider **climate change-related factors in secured lending** (e.g. counterparty selection, collateral eligibility and valuation, risk control measures)? Do you plan to further study the impact of these factors on secured lending and possibly change current practices?
2. What **taxonomies, methodologies and metrics** do you currently use? What **gaps** do you need to close to be able to map climate risks and net zero pathways?
3. Do you consider that **credit ratings of credit rating agencies fully reflect all climate change-related factors** that could be relevant to assess collateral risks? To which extent do you rely on credit ratings by credit rating agencies to assess counterparty and collateral risks?

Background slides

Eurosystem roadmap for MP implementation

Focus area	2021	2022	2023	2024
Disclosures in line with EU policies as an eligibility requirement in collateral framework and asset purchases	Proposal and adoption of EU disclosure regulation.		In force.	First disclosures for 2023.
		Design adequate policies and conduct legal and operational preparations.	Adaptation period for issuers.	In force.
Climate stress-testing of Eurosystem balance sheet	Prepare data and methodology.	Conduct pilot climate stress test.	Build upon the pilot stress test and	Introduce regular climate stress-testing.
Climate change risks in credit ratings for collateral and asset purchases	Assess rating agencies' disclosures and understand how they incorporate climate change risk in ratings. Develop minimum standards for internal credit ratings.		Introduce requirements into the Eurosystem Credit Assessment Framework (ECAAF) targeted to climate change risk, if warranted.	
Climate change risks in the collateral framework	Review collateral valuation and risk control framework to ensure that climate change risks are reflected. Assess financial innovation related to environmental sustainability.		Monitor the adequacy of the collateral valuation and risk control framework to ensure that climate change risks are properly reflected. Design and implement changes, if warranted.	
Climate change risks in the Corporate Sector Purchase Programme (CSPP)	Conduct enhanced due diligence to incorporate climate change risks.			
	Prepare climate-related disclosures of the CSPP.			
	Develop proposals to adapt the CSPP framework to include climate change considerations.	Adapt CSPP framework.		
Market neutrality and efficiency concepts in monetary policy ops.	Assess potential biases in the market allocation amid market inefficiencies and the pros/cons of alternative allocations.	Make concrete proposals for alternative benchmarks, in particular for the CSPP.		