

# Incorporating climate change considerations in the Eurosystem collateral framework



December 2021

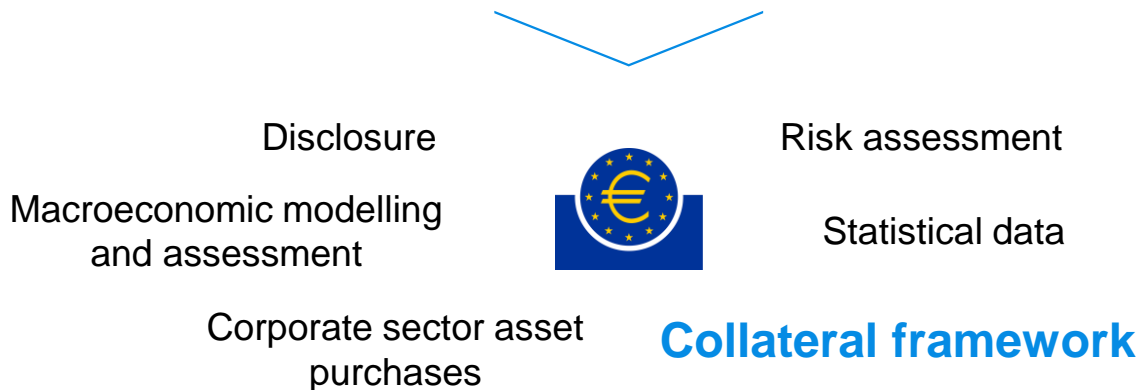
ECB MMCG

Harald Endres

**DKB**  
Das kann Bank

# Context Objective

- ECB will consider climate change risks when reviewing the valuation and risk control for assets mobilized as **collateral** by counterparties for Eurosystem credit operations.
- **Credit operations** should reflect all relevant risks, esp. those arising from climate change.
- **Action plan** will be implemented in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting.



# Sustainable Bonds (marketable assets)



- **use of proceeds:** (Re)financing of green, social projects/loans (or mix of both categories).
- Determination of appropriate selection criteria for the underlying projects/loans
- Majority of outstanding issues

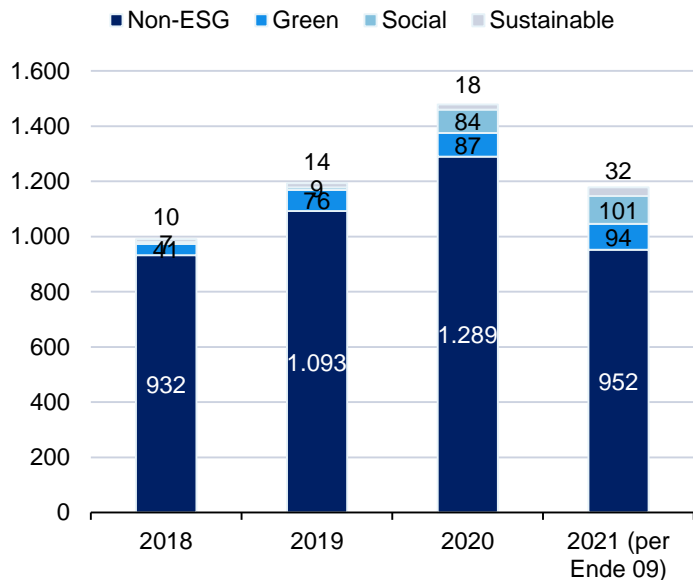
- Use of funds for the **general purpose** of the company
- Linking bond features (coupon, repayment amount) to sustainable criteria and **strategy**

- (Re)financing of so-called **transition technologies**

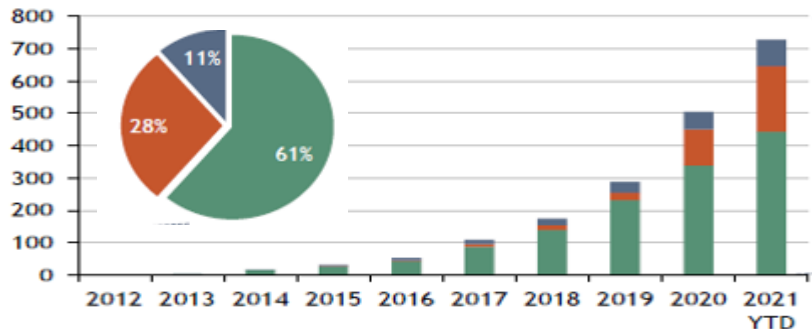
[ECB to accept sustainability-linked bonds as collateral \(europa.eu\)](https://www.ecb.europa.eu/press/pr/2021/07/210721_sustainability-linked_bonds_collateral_en.html)

# Sustainable bonds account for approx. 20% of total volume

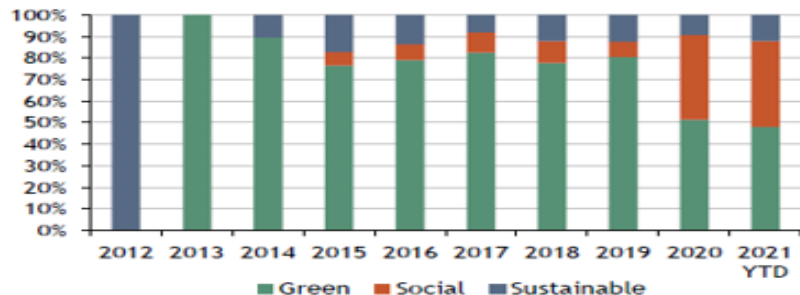
**EUR Bond markets\* New issue volume in EUR bn**



**Total volume outstanding in EUR bn**



**Share of new issuances**



Source: CBI, Bloomberg, BayernLB Research, Berenberg Research  
 \*) EUR bonds over EUR 150 mn volume excluding government bonds and ABS

# Non-marketable assets

**Collateral framework:** The ECB will continue to monitor structural market developments in sustainability products and stands ready to support innovation in the area of sustainable finance within the scope of its mandate...

(Press release 8 July 2021)

Level playing field

- The consideration of sustainable collateral must not lead to further imbalances in the framework

Broader ESG view

- All 17 SDG goals should be taken into account
- “Do not significant harm”

Second Party opinion

- Eurosystem credit assessment framework (ECAAF)
- Admission of sustainable rating agencies (MSCI, Sustainalytics, ISS ESG)

New consideration

- Preferred haircuts, SNP bonds, Green TLTRO for sustainable collateral











Implementation

- Available data is the bottleneck. The implementation requires a sufficient time (dependence on IT service providers)
- Take into account that banks have different business models

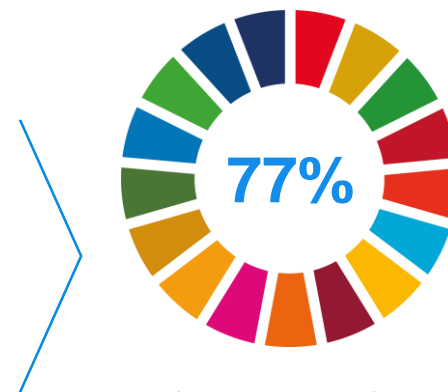
# ECB questions:

- **Do you consider climate change-related factors in your bank (secured) lending?**
- Eurex Repo Green basket (launched 11/20 / 07/21)
- MM still less focused on sustainable issues and has not experienced the same rapid development as the sustainable bond market
- No special ESG limitation for lending counterparties
  
- **Views on the incorporation of climate change considerations in credit ratings.**
- ECAs (external credit assessment institutions/ DBRS, Fitch, Moody's, S&P)
- ICAS (national central banks in-house credit assessment systems)
- Admission of sustainable rating agencies (MSCI, Sustainalytics, ISS ESG)
  
- **What taxonomies, methodologies and metrics do you currently use?**
- EU Taxonomy (only focuses on companies > 500 employees no SPV)
- Broader consideration on ESG with an consequent mapping of SDG goals

# DKB. Methodology for loan business: SDG-Mapping.

	Significant Sub-targets	Description	Volume	Change vs. 2019	Share of loan portfolio	Customer groups according to Bundesbank code
	1.4	Access to financial services	11.9 bn €	+6.6%	15.6%	Private customers, employees, family members & others
	3.8	Access to healthcare	3.2 bn €	+10.5%	4.2%	Doctors, nursing & hospitals
	4.1; 2; 3; 5	Access to education	0.8 bn €	+19.8%	1.0%	Schools, kindergartens, universities and inclusion
	6.1; 3	Access to clean water	0.7 bn €	+4,5%	0,9%	Water / sewage, waste
	7.2; 3; a; b	Support for renewable energies	9.9 bn €	+2.4%	12.9%	Wind, solar, bioenergy, hydropower & energy efficiency
	9.1	Access to affordable housing	18.7 bn €	+5.8%	24.4%	Public transport, communal & cooperative housing
	12; 2	Sustainable cultivation	0.1 bn €	+100.0%	0.1%	Agriculture and food
	16.3; 6	Justice & strong institutions	13.5 bn €	+19.2%	17.6%	Municipalities, foundations, public institutions & corporations
	17.1	Improve tax levies	0.1 bn €	+8.6%	0.2%	Tax consultancy

Sustainable development goals (SDGs)



of the loan portfolio is **SDG-significant**