



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Bas Eickhout

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 22 January 2021

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**Re: Your letter (QZ-060)**

Honourable Member of the European Parliament, dear Mr Eickhout,

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 3 November 2020.

The EU taxonomy is an important milestone to provide clarity on the definition of sustainability and can contribute to the further growth of sustainable finance. As explained in the Eurosystem's reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive<sup>1</sup>, the absence of common definitions of what qualifies as "sustainable" contributes to the current incomparability, unreliability and limited availability of information on the sustainability of financial products. A sound, transparent and widely adopted EU taxonomy is therefore expected to bring benefits to all players in the financial sector, including the ECB. As a concrete example, on 22 September 2020 the ECB took the decision to make bonds with coupon structures linked to a performance target referring to – *inter alia* – one or more of the environmental objectives set out in the EU Taxonomy Regulation eligible as collateral for Eurosystem credit operations and for Eurosystem outright purchases for monetary policy purposes, provided they comply with all other eligibility criteria<sup>2</sup>.

Concerning your specific questions related to the use of the EU taxonomy to estimate the volume of outstanding taxonomy-aligned loans, no infrastructure for collecting and reporting this information currently

<sup>1</sup> See the Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive, June 2020, available at: [https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations\\_20200608~cf01a984aa.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf).

<sup>2</sup> See "ECB to accept sustainability-linked bonds as collateral", press release, ECB, 22 September 2020, available at: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200922~482e4a5a90.en.html>.

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exists. This reflects first of all the fact that the overall framework of the EU taxonomy is still incomplete and therefore not yet ready for use by corporates and banks: the Regulation's delegated acts, outlining the methodologies for calculating and disclosing the alignment with the taxonomy criteria, will be gradually adopted in the coming months and the framework will only enter into full force in 2023.

More fundamentally, a key precondition for such an exercise is that banks are able to collect the relevant information from their customers. Banks would need to have access to detailed information on the environmental characteristics of their counterparts' underlying investments that are being financed by their lending operations. In this context, it is important to note that the taxonomy framework is not yet ready for direct application to the banking sector. For instance, the activity-based structure of the EU taxonomy creates challenges for its application to corporate loans, which tend to provide general-purpose financing and are not earmarked to finance specific investments. In these cases, appropriate methodologies need to be developed to bridge the gaps between the taxonomy's design and the concrete usability needs<sup>3</sup>. On the other hand, banking products targeted to finance specific investments, such as real estate mortgages or energy efficiency loans, are closer to the logic underpinning the taxonomy and could in principle be more suitable for a direct assessment of their taxonomy-alignment. All these issues are being analysed in detail in the context of the European Banking Authority's advice to the European Commission on the taxonomy disclosures<sup>4</sup>, as well as in the Platform on sustainable finance<sup>5</sup>, of which the ECB is a member and to which it is actively contributing, notably in relation to the possible usability challenges of the taxonomy in the banking sector.

This leads me to your second question concerning what further changes in ECB instruments, EU or national legislation would be needed to ensure usability of the taxonomy at the loan level. The finalisation of the Commission's delegated acts on the taxonomy, and the ongoing work of the European Banking Authority and the Platform on sustainable finance, should provide the main forum to address the most urgent challenges related to the application of the taxonomy to loans and potentially advise on possible future legislative changes.<sup>6</sup>

<sup>3</sup> Further challenges might emerge from the gap between the scope of application of the EU Taxonomy Regulation and the indirect data needs of credit institutions, which might potentially be broader than the scope of the Taxonomy Regulation itself.

<sup>4</sup> The European Banking Authority (EBA) was asked to advise on the application of the taxonomy to the banking sector in the context of the Commission's call for advice to the European supervisory authorities on taxonomy disclosures – available at: [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/200915-sustainable-finance-taxonomy-call-for-advice\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/200915-sustainable-finance-taxonomy-call-for-advice_en.pdf).

<sup>5</sup> The Platform – which was recently established in line with Article 20 of the Taxonomy Regulation – is the forum formally mandated to advise the European Commission on the usability of the Taxonomy and on the possible measures to improve data availability and quality – available at: [https://ec.europa.eu/info/publications/sustainable-finance-platform\\_en](https://ec.europa.eu/info/publications/sustainable-finance-platform_en). The Platform's advice will inform the European Commission's delegated act specifying the content and presentation of the information to be disclosed pursuant to Article 8 of the Taxonomy Regulation, which is to be adopted by 1 June 2021.

<sup>6</sup> While the framework might in the future require further adjustments, including to the legal instruments, the relative novelty of the sustainable finance regulatory framework, the many parallel initiatives still ongoing and the already elevated complexity would suggest a prudent and gradual approach, allowing for sufficient reflection before taking additional regulatory steps.

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As far as the ECB is concerned, I discussed the possible use of AnaCredit to collect information on the environmental characteristics of bank loans in a recent letter to your honourable colleague Mr Ernest Urtasun<sup>7</sup> MEP. However, it is important to note that AnaCredit constitutes only one of the tools at the ECB's disposal to collect information on the taxonomy-alignment of banks' lending activities and – depending on the purpose of this data – might not be the most appropriate one.<sup>8</sup> The ECB is closely monitoring current gaps in the data and possible additional data requirements, while being fully mindful of the need to ensure consistency and avoid unnecessary reporting burdens in the context of a rapidly evolving regulatory framework<sup>9</sup>.

While the process of mainstreaming the EU taxonomy across the EU financial sector is at its inception, the ECB is committed to do its part in taking this process forward. As the EU taxonomy framework is implemented and the related data become increasingly available, the ECB stands ready to make the relevant statistics available to the public, in line with its legal mandate to collect all necessary and relevant data in order to produce and disseminate reliable, appropriate and consistent statistics in the areas under the European System of Central Bank's responsibility in a timely and accessible fashion<sup>10</sup>.

Yours sincerely,

[signed]

Christine Lagarde

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<sup>7</sup> For more information, see the letter from the ECB President to Mr Urtasun, MEP, on Anacredit, available at: [https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter201119\\_Urtasun~e834423206.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter201119_Urtasun~e834423206.en.pdf).

<sup>8</sup> For instance, for tasks related to its prudential mandate, supervisory reporting could also be a quicker method of collecting information on banks' exposures to climate and environmental risks.

<sup>9</sup> There are still many relevant workstreams going on, including several EBA mandates on environmental, social and governance risks and disclosures, the future Commission delegated acts on the taxonomy disclosures, the possible review of the Non-Financial Reporting Directive and the work of the Platform on sustainable finance, including its advice on data and usability as well as on the possible development of a taxonomy of "harmful" economic activities.

<sup>10</sup> See Public commitment on European Statistics by the ESCB, available at: [https://www.ecb.europa.eu/stats/ecb\\_statistics/governance\\_and\\_quality\\_framework/html/escb\\_public\\_commitment\\_on\\_european\\_statistics.en.html](https://www.ecb.europa.eu/stats/ecb_statistics/governance_and_quality_framework/html/escb_public_commitment_on_european_statistics.en.html).

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