EUROPEAN CENTRAL BANK
EUROSYSTEM

Adapting ECB operations to climate change

The role of covered bonds

EMF-ECBC Academy Training
36th ECBC Plenary Meeting

29 April 2025

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The importance of covered bonds for the euro area monetary policy implementation

The use of covered bonds in the euro area monetary policy implementation: asset purchaes

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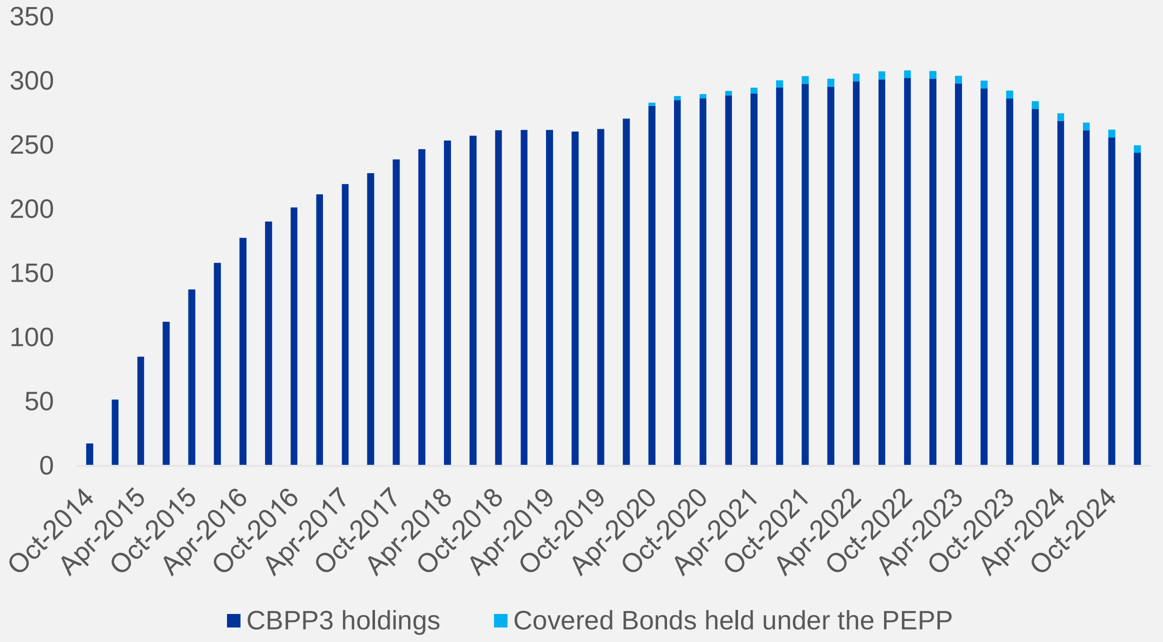
Key aspects on covered bonds

- **Covered bonds** have consistently played a **central role** in the **euro area financial system**.
  - A **stable** and **cost-effective** funding mechanism for banks, supporting their lending activities.
  - **Attractive investment** for market participants given **dual recourse** nature and **high credit ratings**

The ECB's Covered Bond Purchase Programmes

- The covered bond purchase programme (**CBPP1**) was the **first of the asset purchase programmes** (APPs), **launched in 2009** by the ECB.
  - accommodative monetary policy stance + reinforcement of crucial funding source
- Followed by two other CB purchase programmes (**CBPP2** and **CBPP3**).
- Covered bonds were also purchased in the context of the Pandemic Emergency Purchase Programme (**PEPP**).

- The Eurosystem's holdings of covered bonds **reached their peak in Q2 2022**, amounting to **EUR 308 billion**.
- Subsequently, these holdings **decreased** to **EUR 243 billion**, following the **Governing Council's decision** to **halt outright purchases**.



Eurosystem holdings of covered bonds in EUR bn.

Covered bonds still among the most mobilised asset type for credit operations

- Covered bonds continue to play **a pivotal role in Eurosystem credit operations**, consistently ranking among the most mobilised types of collateral in the Eurosystem credit operations.
- In **April 2025** covered bonds mobilised accounted for EUR 432.6 bn, representing **28.4% of the total assets mobilised** as collateral.
- Together with ABS, **structured products represent 47%** of total collateral mobilized for Eurosystem credit operations.

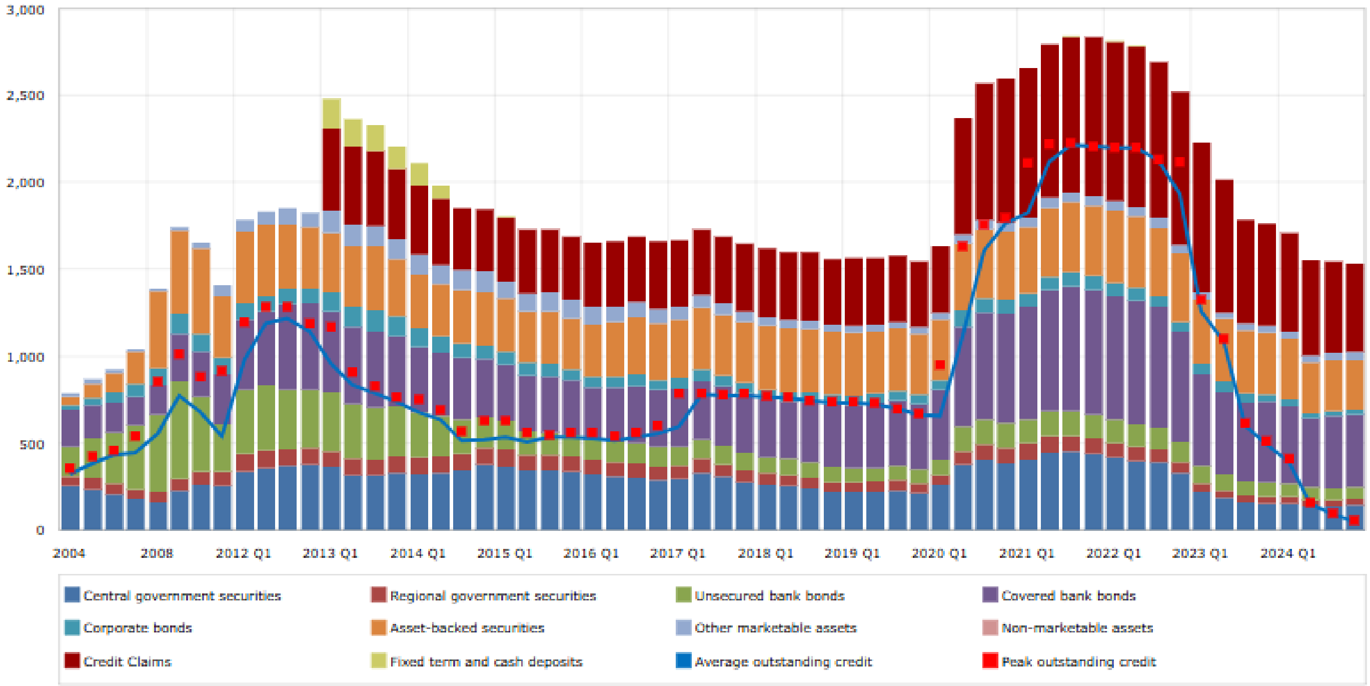


Figure 4. Mobilised collateral after valuation and haircuts and outstanding credit (in EUR bn).

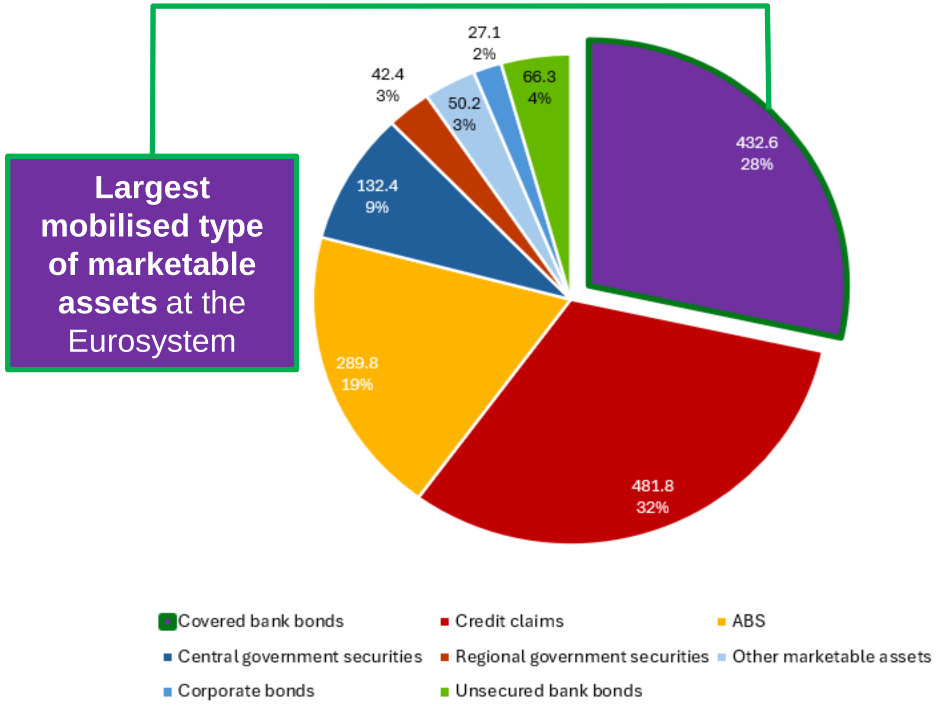


Figure 5. Mobilised collateral per asset class as of April 2025.

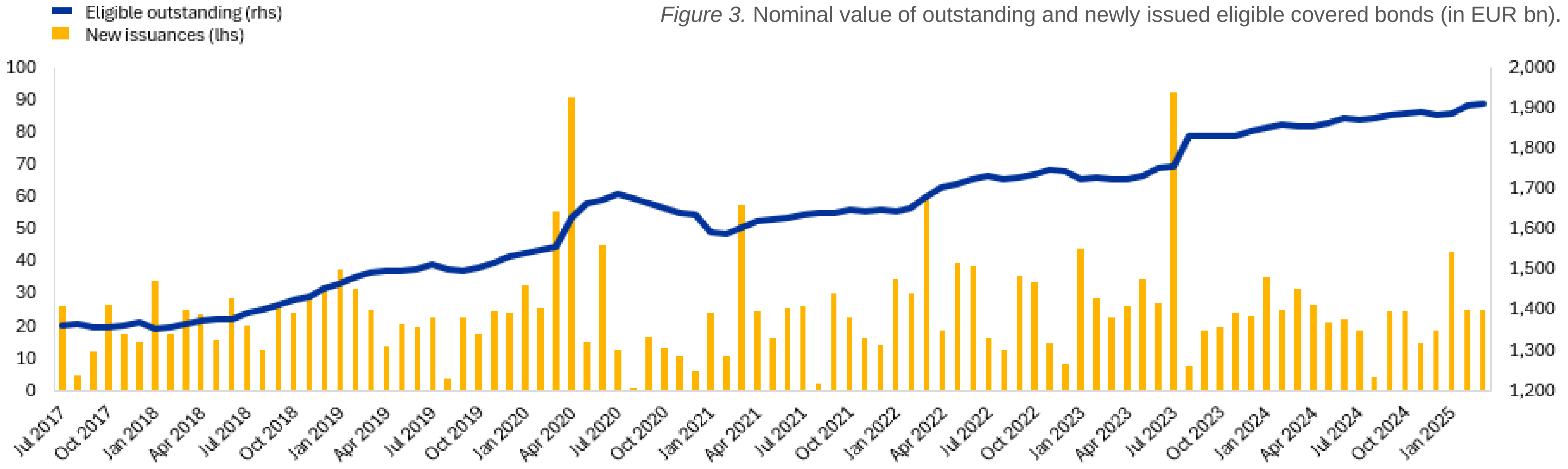
Covered bonds continuously important for the European capital markets

Unabatedly strong issuance for CBs

- **Covered bonds** continue to demonstrate **strong issuance volumes** across the euro area, highlighting their persistent appeal to both issuers and investors.
- In **Q1 2025**, the average amount of new issuances of eligible covered bonds **increased by 1.7%** compared to Q1 2024. During the same period, the nominal value **outstanding of covered bonds eligible as collateral** rose from EUR 1,856.12 billion to EUR 1,910.46 billion, marking **a 2.9% increase** and confirming the **upward trend** observed in recent years.
  - ➢ The covered bonds market remains crucial for the Eurosystem to ensure a **proper monetary policy transmission mechanism**.

Large eligible universe

Figure 3. Nominal value of outstanding and newly issued eligible covered bonds (in EUR bn).



Part 2

Adapting the Eurosystem’s market operations to the challenges of climate change

The Eurosystem's market operations & climate change

2

Key considerations

- The **main objective** of the **Eurosystem's market operations** is **to implement monetary policy** with the aim of **ensuring price stability in the euro area**.
- **Climate risk** has an **undeniable impact** on **prices:**
  - Climate risk encompasses both **transition** and **physical risks** and triggers both **upward** and **downward pressures** on **prices,** which makes **inflation more volatile**.
- **Central banks** tackle climate risk to **ensure price and financial stability** through the **incorporation of climate change considerations into their operations**.
  - In this context, the **Eurosystem** has taken **different measures** to address climate risk from a **market operations perspective**, notably through the incorporation of climate change considerations into **the Eurosystem's monetary policy implementation framework**.

Main measures to incorporate climate change considerations into the Eurosystem's monetary policy implementation framework

1 Green schemes to conduct monetary policy operations

Type	*Measure*
Greening assets holdings	• **Tilting** of the **Eurosystem's corporate sector purchase programme** (CSPP).

2 Adjustments to the collateral framework

Type	*Measures*
Eligibility criteria	• Acceptance of **sustainability-linked bonds** as eligible collateral. • Compliance with the **Corporate Sustainability Reporting Directive** (CSRD) once it is fully implemented.
Risk management	• **Annual reviews** of **valuation** and **haircut methodologies** for **NFC bonds**. • Further considerations on incorporating climate change risks into **NFC bonds** used as **collateral**.

Main measures to address climate risk in the Eurosystem's market operations (1/2)

	Type	Measures	Key information	Status
1 Green schemes to conduct monetary policy operations	Greening assets holdings	• **Tilting** of the **Eurosystem's CSPP**	• The **CSSP portfolio** of the Eurosystem is **targeted to non-financial corporate** (NFC) bonds. • The **CSSP tilting process** is anchored on the **development of climate scores** on **transition risk** for the different issuers. These climate scores receive **different weights** and are based on **three emission dimensions**: - **Disclosures**; **Backward-looking** (past emissions); **Forward-looking** (decarbonisation targets)	Currently applied
2 Adjustments to the collateral framework (i)	Eligibility criteria	• Acceptance of **sustainability-linked bonds** as eligible collateral	• From January 2021 onwards, **bonds with coupon structures linked to certain sustainability performance targets**[1] became **eligible as collateral** for Eurosystem credit operations, as well as for Eurosystem outright purchases for monetary policy purposes, provided they comply with eligibility criteria.	Currently applied
		• **Compliance with the CSRD**	• The **Eurosystem** will **only accept assets**[2] from **companies** and **debtors** that comply with the **CSRD as collateral once the directive is fully implemented**. • This eligibility criteria **was announced to apply as of 2026**, before recent legislative developments around the Omnibus simplification package.	Work in progress

(1): The coupons must be linked to a performance target referring to one or more of the environmental objectives set out in the EU Taxonomy Regulation and/or one or more of the United Nations Sustainable Development Goals relating to climate change or environmental degradation.
(2): Marketable assets and credit claims.

Status
Currently applied
Work in progress

Main measures to address climate risk in the Eurosystem's market operations (2/2)

2

	Type	Measures	Key information	Status
Adjustments to the collateral framework (ii)	**Valuation and risk control framework**	• **Annual reviews** of **valuation & haircut method.** for **NFC bonds**	• Consideration of **climate risks** in **haircut reviews** & **valuation of corporate bonds** since Dec. 2022. • The **different reviews** have concluded that **currently applied risk control measures** are **sufficiently protective** against **climate-related financial risks**.	Currently applied
	Alternative approaches	• **Measure** to be applied to **NFC bonds** used as **collateral**	• **Eurosystem experts** are **currently working** on **developing new approaches** to further incorporate climate change considerations into the **Eurosystem collateral framework** with the aim of **further protecting the Eurosystem balance sheet** from potential climate risk-related shocks. • Workstream started in July 2024 after the Governing Council decided **not to proceed** with the implementation of climate change **collateral pool concentration limits**	Work in progress

Status
Currently applied — Work in progress

Challenges faced and the Eurosystem's approach

Main challenges

Constantly evolving regulatory environment

- Taking into account developments in **different regulatory requirements** when adjusting **Eurosystem's market operations** → the Eurosystem is currently assessing the implication of the **Omnibus package** into the envisaged changes in the monetary operations (e.g., eligibility criteria of CSRD compliance assets).

Data-related constraints

- **Lack** of **consistent data** among **different data sources.**
- **Lack** of **data** to **measure physical risk** in a **harmonized way within the Eurosystem** → focus so far on **transition risk**.
- **Different levels** of **granularity** depending on the **asset type and issuer**. For example:
  - **Larger corporates** (typically issuers of corporate bonds**)** → **information** (e.g., on emissions) at **issuer level**.
  - **Smaller corporates and SMEs** (typically financing themselves through banks) → **lack** of **information** (e.g., on emissions) at **entity level** and available only at **sector level.**

Eurosystem's approach

- The **Eurosystem (**the **ECB** and the **NCBs**), is **not a regulatory authority of financial institutions or markets.**
- In this context, it acts as a **catalyst** to facilitate the implementation of decisions and actions taken by the different institutions such as, the European Commission, the EBA or the SSM.
- The Eurosystem also **collaborates with different market participants in the private sector** (e.g., credit institutions, associations and platforms, such as the ECBC) with the aim of **exchanging knowledge** and **anticipating potential concerns.**

Part 3

The need for climate-related information

Lagging on the needs for climate-related disclosures on cover pools

The institutional landscape

- Joint statement from European Supervisory authorities (ESAs) and the ECB in 2023
  - ➢ A key priority for structured products to disclose **climate-related information on underlying pools**
  - ➢ Specifically Covered Bonds as ESAs deployed sustainability related disclosures for STS securitizations

Several reasons for enhanced disclosures

- **Risk management and investor protection**: assessment of balance sheet soundness and trading opportunities
- **Monetary policy implementation purposes**: assessment of climate-risks embedded in assets used in central bank operations
- Hurdles to leverage **transparency as competitive advantage**: classification of products and services as sustainable under the EU Taxonomy Regulation and Sustainable Finance Disclosure Regulation (SFDR)
- From voluntary to mandatory disclosures for **level-playing field among covered bonds and across asset classes**
- **Microprudential monitoring**: exposure to adverse climate events for financial institutions, comparability facilitating of equal treatment by EU supervisors. See F. Elderson's speech in March 2025

'As prudential supervisors, our true north is that no material risk remains unaddressed […] The financial risks stemming from the ongoing climate and nature crises are no exception to that principle.'

Frank Elderson

Reconsideration on reporting requirements spreads to covered bond disclosures

3

What happened with the Omnibus simplification package ?

- **Postponement of enforcement date** for the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD)
- Material **specification adjustments** for the CSRD, the CSDDD and the EU taxonomy
  - ➢ E.g. removal of 80% of initial targeted companies from the CSRD eligibility scope

CSRD	CSDDD	EU Taxonomy
Reduction of the scope of reporting companies to 1,000+ employees	Postponing the Transposition Deadline to by one year to 26 July 2028	Changes to the Green Asset Ratio
Postponement of reporting requirements for second & third wave companies by two years	Limiting due-diligence to direct business partners	Introduction of minimum 10% materiality thresholds
Voluntary Reporting Standard (VSME) capping information requests	Reducing the frequency of due-diligence to five years	Introducing partial taxonomy alignment concept
Revision of the European Sustainability Reporting standards ("ESRS") reducing the number of data points	Deferring civil liability to national regimes	Substantial changes to reporting templates to reduce number of data points
Removing development of sector-specific ESRS	Reducing the trickle-down effect further by limiting information requests	Introducing opt-in regime for OpEX taxonomy reporting
Removing the reasonable assurance standard	Clarifying climate transition plan requirements	
	Removing the review clause on financial services	

Source: European Commission, Bloomberg Intelligence

Bloomberg Intelligence BI

Ripple effect from the Omnibus package

- Emphasis on the ***proportionality*** principle
- Willingness to **downscale the 'reporting burden'** to enhance competitiveness in EU markets

Impact on the current regulatory initiatives

- In 2023, Commission called the EBA for **Advice on sustainability and covered bonds**
- Primary energy demand and Energy Performance Certificate (EPC) **currently disclosed at banking-book level** in Pillar 3 template 2
  - ➢ Enhancement could consist in a new row that would specify the distributions of holdings among cover pool assets-only
- Additional **useful metrics**: see ECB proposal for Securitized products for public suggestions on another collateralized asset class
  - EPC Issuance date
  - Tailpipe emissions for vehicles

The ECB encourages simplified reporting without compromising on climate data

Two objectives

Two birds, one stone: mission possible

- ECB support to enhancing long-term competitiveness for the European economy:
  - ➢ Welcomed comprehensive reports by E. Letta – *Much more than a market* - and M. Draghi – *the future of European Competitiveness* (both 2024).
- Equal ambition to maintain objectives regarding readiness to climate change stated in:
  - European Green deal (2019).
  - Sustainable Finance Action Plan (2021).
- Data availability key in the ECB roadmap (2024).

Simplification and climate considerations are not a dilemma

How simplification and climate-related disclosures enhancements both support improved competitiveness

- Simplification aims at **proportionate disclosures** requirements.
- Climate-related data standards increase **harmonization, reliability and comparability.**
- Simplification also avoids duplication between reporting templates and boosts efficiency.
- **Allocation of capital** towards most rewarding projects on long run.

Exploring different channels for cover pool disclosures

EBA templates	• **Pillar 3 ITS template 2**	• **Public** availability ➢ **Effective investor information**
	• **Supervisory reporting template**	• **Broad application scope** given the purpose ➢ Comprehensive **overview** of the market
Other reporting templates	• **Harmonized Transparency Template/Harmonized Disclosure Template**	• Ongoing **encouraging private initiatives** but voluntary-basis only ➢ **Broader take-up** needed
	• **ECB's own templates**	• Possible **misalignment** with future EU policies, ECB **not a standard-setter** ➢ **Not envisaged** at this stage

Green transition: Key priority

- The **green transition** represents a **strategic advantage** for the EU.
- In this context, the EU's sustainable finance framework is a set of key legislative instruments to **unlock financing for a swifter transition**
- A **targeted simplification** in reporting requirements is **desirable** as long as the framework continues to **deliver on its sustainability objectives**

Q & A

Background information: The issuance and usage of covered bonds during the pandemic

1

Rise in CB issuance during the Pandemic…

- **March 2020 - February 2021: + 19.3%** in **new issuances of eligible covered bonds** compared to the previous year (from EUR 253 billion to EUR 302 billion).
- **Q4 2019 – Q4 2021: +7.2%** in o**utstanding amount of covered bonds eligible as collateral** for Eurosystem monetary policy operations (from EUR 1,538 billion to EUR 1,648 billion).

Due to the reliability of the instrument for banks' funding

- Reflection of the covered bonds' role for **liquidity sourcing amidst stressed market conditions.**
- Banks benefited from the possibility to use these bonds as collateral, including those issued by themselves or closely linked entities through **'own-use' mobilization.**

Mobilisation as collateral to Eurosystem's credit operations spiked even higher !

- **Q4 2019 – Q4 2021: +89.1%** in volume of **covered bonds** mobilised as collateral (from EUR 379 million to EUR 718 million),

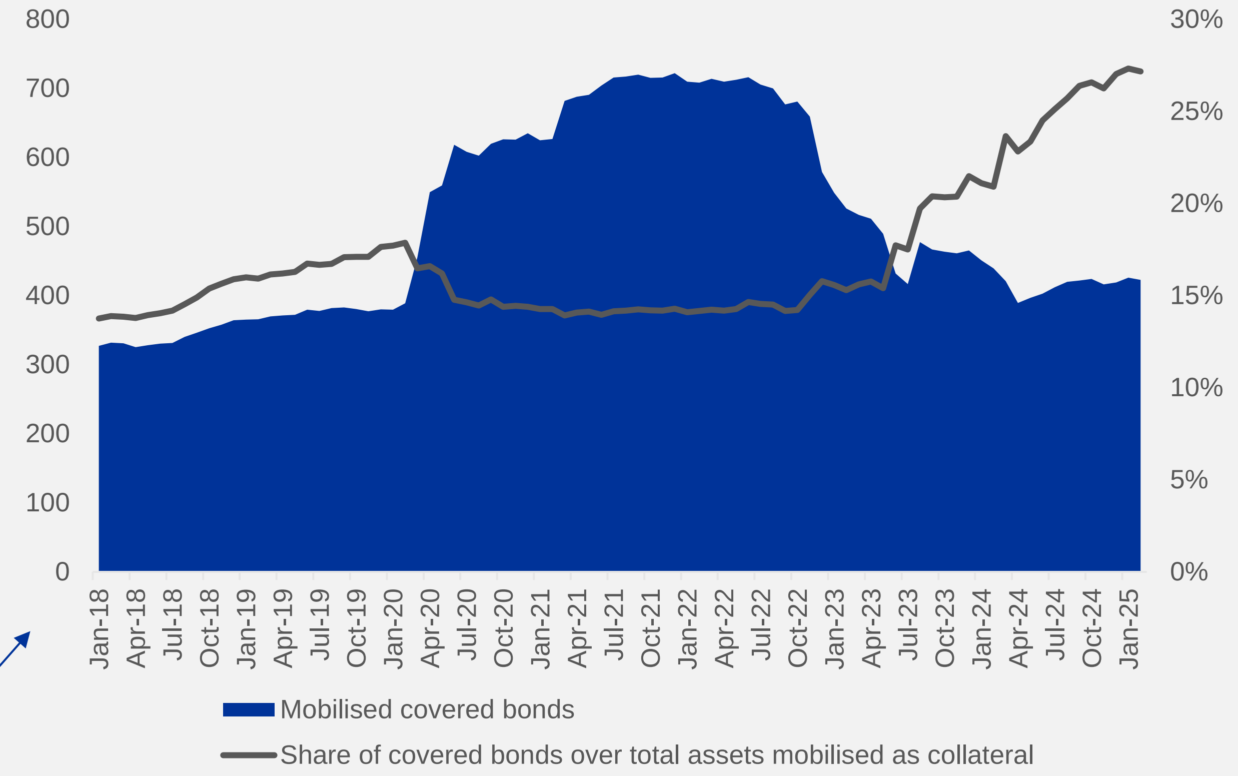


Figure 2. Covered bonds mobilised as collateral after valuation and haircuts (in EUR million).