ESMA publishes translations for Guidelines on enforcement of financial information

23 November 2020

Guidelines and Technical standards

The European Securities and Markets Authority (ESMA) has issued today the official translations of its guidelines on enforcement of financial information.

National Competent Authorities (NCAs) to which these Guidelines apply must notify ESMA whether they comply or intend to comply with the Guidelines, within two months of the date of publication by ESMA of the Guidelines in all EU official languages.

ESAs propose to adapt the EMIR implementation timelines for intragroup transactions, equity options and novations to EU counterparties

The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), the European Supervisory Authorities (ESAs), have today published a final report with draft regulatory technical standards (RTS) proposing to amend the Commission Delegated Regulation on the risk mitigation techniques for OTC derivatives not cleared by a CCP (bilateral margin requirements) under the European Market Infrastructure Regulation (EMIR).

ESMA has also published a final report with new draft RTS proposing to amend the three Commission Delegated Regulations on the clearing obligation under EMIR.

Intragroup transactions

The amendments included in these draft RTS propose to extend the temporary exemption for 18 months for intragroup transactions.

The bilateral margin Delegated Regulation and the clearing obligation Delegated Regulations originally introduced temporary exemptions for intragroup transactions with third-country group entities to facilitate centralised risk management-procedures for groups, while the relevant equivalence decisions are being assessed.

Equity options

The amendments included in the draft RTS on bilateral margin propose to extend the temporary exemption for single-stock equity options or index options (equity options) for three years.

The bilateral margin Delegated Regulation originally introduced a temporary exemption for equity options so as to facilitate international regulatory convergence with regard to risk-management procedures.

The new draft RTS for intragroup transactions and equity options are proposing to extend the abovementioned temporary exemptions to avoid undue costs and an unlevel playing field situation for EU counterparties.
Novations from UK counterparties to EU counterparties

In the context of the withdrawal of the UK from the EU, the ESAs and other EU authorities and institutions have highlighted the importance for market participants to be prepared for the end of the transition period. These draft RTS reintroduce a regulatory solution to support these preparations.

The draft RTS allow UK counterparties to be replaced with EU counterparties without triggering the bilateral margin and clearing obligation requirements under certain conditions. This limited exemption would ensure a level playing field between EU counterparties and the preservation of the regulatory and economic conditions under which the contracts were originally entered into. Counterparties should start negotiating as soon as possible the novation of their transactions which are in the scope of these amending regulations, given the twelve month timeframe to benefit from this measure.

Next steps

The ESAs have developed the draft RTS on bilateral margining under Article 11(15) of EMIR, while ESMA has developed the draft RTS on the clearing obligation under Article 5(2) of EMIR.

The ESAs have now submitted this new version of the draft RTS on bilateral margin to the Commission for endorsement in the form of a Commission Delegated Regulation, i.e. a legally binding instrument applicable in all Member States of the European Union. It replaces the version submitted and published on 4 May 2020. ESMA has also submitted to the Commission at the same time the draft RTS on the clearing obligation, also for endorsement in the form of a Commission Delegated Regulation. Following their endorsement, they are then subject to non-objection by the European Parliament and the Council.

G20 Summit: G20 leaders united to address major global pandemic and economic challenges

President of the European Council, Charles **Michel**, and President of the European Commission, Ursula **von der Leyen** represented the EU at the 15th G20 Leaders' summit hosted by Saudi Arabia on 21-22 November 2020.

G20 leaders met in virtual format to address the way forward how to tackle together the ongoing COVID-19 pandemic, finance the development and deployment of a vaccine as well as continue the support to citizens and businesses struggling to cope with the aftermath of the pandemic.

President **Michel** said: *"An international Treaty on Pandemics could help prevent future pandemics and help us respond more quickly and in a more coordinated manner. It should be negotiated with all nations, UN organizations and agencies, in particular the WHO. The WHO must remain the cornerstone of global coordination against health emergencies. A Treaty on Pandemics could complement its efforts."*

G20 leaders also discussed how to build back better and pave the way for an inclusive, sustainable and resilient future. President **von der Leyen** said: *"I am glad that G20 leaders agreed to make Covid-19 vaccines available and affordable for all. But more funding is needed. This is why I called G20 Leaders to commit to fund 4.5 billion US dollars for the ACT-Accelerator by the end of the year. G20 leaders also agreed to maintain economic measures until the recovery is firmly on the way. As a lesson from the crisis we need to step up global preparedness. We will discuss this again in May 2021 at the joint G20 Global Health Summit in Italy. To build back a more sustainable, inclusive and resilient world we also need to step up actions to fight climate change. The EU leads the way to climate neutrality by 2050 and many G20 partners now have taken the same commitments."*

They also discussed a number of other crucial global issues such as the economic recovery, the reform of the WTO, the taxation of the digital economy and how to support low-income countries.

Following the two days Summit, Leaders adopted the G20 Riyadh Declaration to address common global challenges.

On **COVID-19**, the EU championed a multilateral solution to the coronavirus pandemic. EU leaders called on the G20 to uphold and deepen its commitment to fight the COVID-19 crisis, notably by ensuring the affordable and equitable access for all people of diagnostics, therapeutics and vaccines. The Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility are the main tools to do so.

On **climate change**, the Summit agreed on a unified paragraph in the G20 Riyadh Declaration, after three consecutive G20 Summits where such consensus could not be reached. EU leaders urged all G20 members to work towards the full and effective implementation of the Paris Agreement. The EU also promoted a recovery based on green, inclusive, sustainable, resilient and digital growth in line with the 2030 Agenda and its Sustainable Development Goals.

On **debt relief** for the most fragile countries, Leaders reconfirmed their support through the G20 Debt Service Suspension Initiative that will provide debt relief and free resources to fight the pandemic. They committed to implementing the Debt Service Suspension Initiative (DSSI) including its extension through June 2021. EU leaders stressed that additional steps might be needed, and the Summit endorsed a common multilateral framework for further debt treatments.

On **trade** and **taxation of the digital economy**, Leaders recalled their support to the WTO reform process in the lead up to the 12th WTO Ministerial Conference and recognized the contribution that the Riyadh Initiative on the Future of the WTO has made. They also agreed to strive to find a consensus-based solution for a globally fair, sustainable, and modern international tax system by mid-2021, built on the ongoing work of the OECD.

For more information:

Visit the meeting page

Philip R. Lane: Interview with Les Echos

INTERVIEW

Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Guillaume Benoit, Elsa Conesa and Sophie Rolland

22 November 2020

The European economy is facing further lockdowns. What are the immediate and long-term consequences and do you think there is a risk of another recession?

Our focus is more on the spread of the virus, which is inevitably holding back the behaviour of consumers, and not just on the lockdown measures themselves. However, if you put those two factors together, absolutely, we do think they will lead to a drop in activity. The question is how long this period will last and that will depend on the behavioural response and the degree to which the measures are respected. Compared to the lockdown in spring, these measures are less harsh. Manufacturing has been kept open, construction is continuing, essential shops remain open, and there is not too much disruption to supply chains. So the impact is likely to be less severe this time. However, the situation can change very fast, from one day to the next. This makes it extremely difficult to make any precise estimates of the impact. What does seem certain, however, is that the situation will not materially improve in the last weeks of 2020.

Is the progress being made on coronavirus (COVID-19) vaccines a game changer?

Until the vaccine is fully rolled out we remain in a period of uncertainty. We have already had to undergo two sets of restrictions since the beginning of the pandemic and these will certainly not be the last. The vaccine gives more of a vision for what may be late next year, and what 2022 will look like, but not for the next six months. We have a bit of a paradox, which is that the financial markets have responded instantly, because these price the effects of the vaccine based not just on what's happening today or the next year, but based on future earnings in 2022, 2023 and 2024. From the point of view of a central bank, or for governments, that helps. It's much easier to pursue an accommodative fiscal policy and support GDP growth in the meantime if you know that there is light at the end of the tunnel. Bearing this in mind, 1 May was the first day we published our multi-year baseline scenario given the assumption that a vaccine or a medical solution would be found by around mid-2021. So what we see now is broadly confirming that we were on the right track. The most severe scenarios are less likely now, but there remains a big gap between now and the end. So right now there's a lot to play for.

So when do you think these changes will start to alter the trajectory of GDP growth?

Our projections assume that the vaccine will be rolled out throughout next year. But the full recovery of GDP, back to where it was in 2019, will not happen before the autumn of 2022. So we do not assume that everything just bounces back to where it was before COVID-19, because there's going to be longer-term effects in terms of confidence and savings, and getting people back to work. In spite of the vaccine, there will be some persistent damage and the European economy will not exit this crisis without being weakened over a long period of time.

How is France dealing with the situation? What is the outlook?

Of course, France is a big part of Europe's growth performance, but we primarily conduct our analyses at the euro area level. I would only say here that, where you have a temporary macroeconomic shock, you do need a fiscal response which is suitably aggressive, and one that supports this demand across the euro area, for firms and households alike. The headache for policymakers will be knowing where to draw the line between those firms that are viable and those that are not.

Do you feel that asset purchases were not sufficient to sustain demand?

The general consensus is that central banks should bring down interest rates and purchase assets. This also creates room for fiscal policy, and under these conditions, fiscal measures should have a far bigger impact on the overall dynamics of the economy. The main role for monetary policy this year has been to stabilise the financial system and to circumvent financial market distress. Low interest rates are good news for firms and for households. But only fiscal policies are capable of targeting individual sectors and monetary policy is not tailored to do that.

Do you mean to say that the fiscal policies of European governments are not aggressive enough?

Governments are still finalising their 2021 budgets, and Europe, collectively, needs to make sure that the fiscal policies are sufficiently responsive. In the last number of weeks and months, more and more governments have put in place stimulus programmes for 2021. It is for the government policymakers to take the lead role here. If, for example, France or any other country stimulates its economy, that will also benefit the rest of Europe, and so to have a collective discussion is beneficial.

Are you worried about the current delays in negotiations over the Next Generation EU plan?

We should not attach too much importance to short delays in finalising the Next Generation EU (NGEU) plan. Of course, every EU Member State has to agree and very quickly come to a final decision on it. If it’s a matter of a number of weeks, it’s not so important, because the governments have already put stimulus packages in place. This plan is not meant to stimulate the economy by bridging the gap between now and when the vaccines are rolled out, but to provide a vision for the next five years. We will need to face the challenges of digitalisation and climate change. There will still be a lot of nervous consumers and also firms will need to rebuild their investment capacity. The NGEU is about showing that the European Union and the euro area have a very strong solidarity: where we have a common shock, part of the way we address that is through a commonly-funded programme, such as the common bond issuance, to help particularly those countries most hit.

Do you have a view on what kind of resources you can fund this new debt with?

Well, this is just going to be a choice for the European governments. But in a low interest rate world, the amount of revenue that needs to be raised by the European Union to cover the interest rate cost is very limited.

Are the new EU bonds finally the European safe asset that the markets have long been expecting?

What’s important for Europe is that the pool of safe assets expands – and we are already seeing it with the SURE bonds, which they’re issuing at different maturities – so that you have a good yield curve and can respond to investor expectations. Around that, you can develop the derivatives market. But it’s important not to set up a kind of a contest between the EU bonds and the national bonds. The supranational and the national bonds are to coexist and it’s important that the national bonds are also classified as high grade. I can see, by the way, that the announcement of Next Generation EU has been very good news for the national bond markets. Global investors are recognising that this will strengthen the euro area as a whole.

Some observers have taken Christine Lagarde’s speech at Sintra as a turning point in strategy, opening the door to implicit control of the yield curve by the ECB. Should investors now expect the ECB to intervene based on European sovereign yields?

In October we said we would recalibrate our monetary policy instruments at our meeting in December. In the context of the pandemic, our role is to provide favourable financing conditions. Sovereign yields are important for governments and the private sector. But we’re also looking at the credit conditions on the market and the terms and conditions banks are offering, since the European economy is still very bank-dependent. So when we consider favourable financing conditions, we also look at the credit margins applied to small and medium-sized enterprises, large corporates and households. We don’t look at just one sovereign yield indicator. It is important to avoid euro area fragmentation.

What metrics will you look at to decide when to terminate the pandemic emergency purchase programme (PEPP)?

It takes time for monetary policy to filter through to the economy. There is no exact mapping between the dynamics of the virus and our monetary policy measures. However, we closely study the impact of the pandemic on economic activity: for example, further interruptions of economic activity would clearly suggest that it would be too early to terminate the PEPP. We won’t terminate the programme until certain conditions have been met. First of all, the pandemic must no longer interrupt normal economic activity. We will also have to establish other conditions in terms of economic recovery and inflation dynamics, but it’s still too early to do this. The programme was originally designed to last until the end of June, but we have always said that it would continue until the crisis phase is over.

Is monetary policy now focused on providing support to fiscal policies?

At a time when we are experiencing a common shock and governments are running higher deficits to support their economies, our asset purchases under our various programmes enable us to maintain favourable financing conditions. Monetary policy and fiscal policies are moving in the same direction. But this may not always be the case. Monetary policy and fiscal policies may move in opposite directions again in the future. Remember that in 2015-2019 governments were shrinking their deficits, while there were significant asset purchases. As we say in our forward guidance, our net purchases (under our asset purchase programme) will continue until we are in a position to raise interest rates, which will require inflation to be back in the neighbourhood of our aim. The first phase will then be to stop adding to the stock of debt. Then after that point, at some point, there could be a discussion about shrinking the balance sheet. So, ending asset purchases depends on what’s happening to inflation. In our September projections – which will be updated in December - we don’t see inflation reaching our aim in the next two years.

The ECB is currently struggling to convince markets of its ability to achieve its inflation objective. Shouldn’t this objective be redefined?

Since the summer of 2019, our monetary policy introductory statement has explicitly referred to our symmetric approach to maintaining price stability. Looking to the future, the definition of price stability and our objectives in that area are being examined as part of the monetary policy strategy review. All of the Governing Council members and many of our teams throughout the Eurosystem are involved in this review, which is still ongoing, and it is still too early to say what the outcome will be.

Several market participants consider that there won’t be any more rate cuts and that the deposit rate has reached floor level. Is that a good interpretation of what the ECB is saying?

We don’t think we are at the lower bound; we do think there is room for further cuts in the future. That’s why we continue to say that we expect rates to be at their current or lower levels until inflation has returned robustly to where we want it to be. We still believe lowering interest rates is a viable option. But we have to decide which instruments are currently the most effective. So far, we’ve been indicating that the pandemic emergency purchase programme (PEPP) and the targeted longer-term refinancing operations (TLTROs) have been very effective.

Should the flexibility of the PEPP also be applied to your other asset purchase programmes?

The starting point is the capital key (which determines the share held by each Member State in the ECB’s capital according to each Member State’s share of euro area gross domestic product and population). The capital key should continue to be the natural guide underpinning our asset purchase programmes, there’s a very strong validity to that. But under conditions of market stress it also makes a lot of sense to not impose restrictions on ourselves that would basically damage the efficiency of monetary policy, particularly given that the most important key word of this year is uncertainty. And even though deviations from the capital key have come down in recent months, retaining flexibility under the PEPP is important to reassure everyone that the central bank will do its job in terms of market stabilisation.

Is there any concern that if the PEPP is maintained for a long period, even after the public health effects of the pandemic have subsided, that this could lead to further protests from the Federal German Constitutional Court, for example?

I think everything we do needs to be proportional and efficient. The approach we take is that we have to be able to explain the logic of our decisions. There is very strong logic in building flexibility into the PEPP. And it’s important that we were able to implement it. But it will come to an end once the pandemic crisis ends, as will the associated impact on the economy and inflation. The temporary nature of the PEPP allows much flexibility.

Is the cancellation of sovereign debt held by the ECB an option? Some people in the economy are calling for a measure of this kind.

The answer is very simple: it is prohibited by the Treaty. We cannot do monetary financing. But over and above this question, I think that every part of the policy world, civil society and the financial system needs to absorb the implications of low interest rates. The cost of issuing debt is very low, which lowers the cost of debt servicing.

Do you think that you should increase the liquidity programme for banks? The last quarterly lending survey shows that the first signs of tightening financial conditions are visible.

We take the results of that survey very seriously. Between now and our meeting in December, we will continue to look at the possibility of redesigning our targeted lending programme, which has been very important. We will look at a possible redesign, continuation or extension. But we must also learn from previous TLTRO operations - for which the take-up rate has been very high – and study how these are affecting the balance sheets of the banks. The very basic condition is that you only get the low rate if you maintain credit to the private sector, to households and firms. We do have to study this to make sure the programme is as efficient as it should be.

Should TLTROs be even more accommodative than they are at present?

The TLTRO has many dimensions: the volume of loans required to qualify for the programme, the duration and the interest rate. I think you would have to take all of these into account.

Do you think banks should benefit from another round of softening of prudential measures?

I think you will have to ask my banking supervision colleagues that question. We maintain a strict separation between monetary policy and prudential supervision. What I will say is: this year, the supervisory decisions were quite important.

Do you believe non-performing loans should be removed from bank balance sheets and ring-fenced in a specific vehicle?

Again, I'll point you to the work of Andrea Enria who has been advocating certain solutions. Asset management companies can play an important role. But again, I think I'll defer to my banking supervision colleagues on that.

Are QE policies leading to greater inequality in the euro area?

That's an important question. Asset purchases are the main vehicle of our stimulus policy, along with low interest rates. This has an instant impact on asset prices in the form of higher stock market valuations and higher house prices, which will benefit those who own these assets. In contrast, the amount of interest income earned from owning bonds is much lower. This could be a cause for concern from a wealth distribution perspective. For example, it could be an issue in countries where employees need to save a lot for retirement…

…That is worrying…

…At the same time, by lowering the cost of debt for governments, asset purchases lower the cost of debt servicing. If interest rates were higher, governments would have to run austerity policies by raising taxes and making public expenditure cuts. Savers would benefit from higher interest rates, but those with mortgages, student loans or car loans would lose out. We believe asset purchases have helped to save many jobs in Europe and led to faster wage increases, and through those dimensions it's been good for many households in Europe.

The euro recently came close to its highest level against the dollar for quite some time. What level would give you cause for concern? And what can the ECB do?

The euro area economy is an open one. It is mostly driven by domestic factors, but the exchange rate does of course matter for the future of the GDP and inflation dynamics. That’s why we refer to it in our recent statements. It feeds in with lots of other things that can have an impact on prices. If the inflation projection is not satisfactory then we respond. But we do not target the exchange rate.

Interview with Börsen-Zeitung

INTERVIEW

Interview with Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, conducted by Kai Johannsen and published on 21 November 2020

21 November 2020

Mr Mersch, is it part of the European Central Bank’s mandate to engage with the capital market segment of green and sustainable finance?

The EU Treaties require the ECB to give primacy to the objective of price stability. If ECB’s engagement with the green and sustainable financial sector were necessary for maintaining price stability in the euro area, it would fall within the remit of our primary objective. I don’t think that applies at present.

In addition, the ECB has what are known as secondary objectives. Without prejudice to our primary objective of price stability, we support the general economic policies in the EU “with a view to contributing to the achievement of the objectives of the Union”. One of these objectives is to work towards “a high level of protection and improvement of the quality of the environment”. This justifies why the ECB is also looking into sustainability.

However, contrary to what some may argue, that does not mean that the ECB is free to take the initiative and decide itself how “a high level of protection and improvement of the quality of the environment” is to be achieved. For good reason, that remains the privilege of elected politicians.

What are the risks facing green and sustainable finance over the coming years?

I would see it as a risk if green finance degenerated into a pure marketing tool. If investors want to make the world a greener place, they need to know how their investments contribute to more sustainability. To put it in technical terms, I see the risk of informational market failures if information on the sustainability of businesses and financial products is inconsistent, largely not comparable and at times unreliable or even completely unavailable. Definitions of what constitutes a sustainable investment are often subjective and inconsistent. The EU taxonomy is a promising initiative, albeit incomplete. Its practical usability remains a challenge. Plans are also under way for widely applicable industry standards.

What else is needed?

Better and more standardised non-financial reporting will also be crucial. This is essential for correctly pricing the risks. Sound reporting is the cornerstone of appropriate risk management.

Finally, financial institutions, including banks, need to ensure they can identify at an early stage, and deal with, the risks emerging from the effects of climate change and a rapid transition to a carbon-neutral economy.

Only once these prerequisites are met can sustainable finance prosper and have a tangible impact on the real economy. Otherwise there remains a risk of “greenwashing” and of an unsustainable “green bubble” detached from fundamental data.

The EU taxonomy for green and sustainable finance is a complex system of classification intended to give investors and providers of financial products certainty as to what can be classified as green and sustainable. Is this a masterstroke by the EU that will advance this market segment and possibly also serve as an example for other countries and regions?

The EU Taxonomy Regulation is important. A sound classification system provides investors with valuable information for their investment decisions. The taxonomy was designed with green bonds in mind. Its application to other financial products may not be as straightforward and the overall design might need to be adjusted.

Moreover, the system is indeed very complex.

What does that mean for risk assessment in practice?

I see a certain gap between its envisaged objective and its practical usability.

However useful the taxonomy may be for green investment decisions, it will not help in the risk assessment of economic activities exposed to climate risk. Finally and more fundamentally, the taxonomy is only one piece of the puzzle: granular data at the corporate level are required in order for it to be usable.

If we address these shortcomings, the EU can set an example for the parallel processes now under way in other countries. We have one of the most advanced frameworks for sustainable finance. The EU taxonomy can be an important element in promoting the EU regulatory approach abroad, and in strengthening the EU’s role as a global hub for sustainable finance.

When do you expect financial markets and market participants to be fully green and sustainable?

I don’t think that the entire financial sector will one day be green. There are many industries that are neither clean nor dirty and they also raise funding on the market. Moreover, I don’t think we can stop climate change by choking off entire sectors of the economy. We should rather create the right incentives through, say, fiscal policy measures, including carbon pricing and other regulatory tools.

Finally, the financial sector can indeed help, but it can’t save the planet on its own.

We are now transitioning towards green and sustainable capital markets: what specific transition risks do you see in this phase?

The transition towards a greener and more sustainable capital market may lead to a repricing of assets. If this adjustment happens abruptly, i.e. if the redirection of capital proceeds in an unexpected or disorderly way, we talk about transition risks.

However, compared with the potential economic losses arising from climate risks, the transitory losses that may occur are paltry. But individual banks could certainly be hit hard: the bulk of exposures to the most energy-intensive borrowers are held by just a few banks. In other words, a few banks have very high exposures.

Are the banks already providing sufficient disclosure on specific risks that are neither green nor sustainable, i.e. largely brown assets, and do you already incorporate these in the ECB’s banking supervision? How far do the banks go in their disclosure and do they go far enough for the ECB?

I see a need for further action in that regard. It’s true that the disclosure of climate-related risks has improved, but mostly the information is just not detailed enough, and only seldom supported by quantitative data.

We will soon be publishing a “Guide on climate-related and environmental risks”. The Guide sets out how, in our view, institutions should take climate and environmental risks into consideration in their business strategies, governance and risk management frameworks and how these are to be disclosed. We looked at the disclosure for last year from a sample of the institutions that we supervise – more than half of them did not even meet the minimum requirements set out in the Guide. In relation to this we will soon be publishing a report on the disclosure of environmental risks of the banks under our supervision.

Does that provide any first lessons for the ECB?

Yes. That is why we will devote our 2022 stress test to the topic of climate change. This stress test should not only be analytical and top-down, but, in the hope of a better data situation, a better taxonomy and better standards, also enable a meaningful bottom-up approach.

Are you concerned that a major case of greenwashing could arise, which could trigger a chain reaction and result in a sharp downturn in the financial markets? Are the markets sufficiently forearmed against this, or in other words, are they stable enough?

There is no doubt that greenwashing is an issue, even if an improvement is in sight. The European Commission will soon present a legislative proposal for an EU green bond standard. However, a green bond does not necessarily tell us how green a company is as a whole. The classification relates instead to individual assets that these bonds are intended to finance. These assets are only part of the company’s balance sheet, which could indeed also include conventional assets with a bigger carbon footprint. Thus, on their own, green bonds are not sufficient for a greener real economy.

What would in your view be helpful?

A welcome Commission initiative concerns the introduction of an EU ecolabel for financial products and in particular for investment funds. This should allow retail investors who are concerned about the environmental impact of their investments to rely on a trustworthy and verified label and hence make informed investment decisions. At the same time incentives could be created for financial markets to develop more products with a reduced or positive environmental impact.

It remains a problem that markets may not yet be able to correctly assess the fundamentals of green financial products. This is for instance the case with green bonds, where there are large differences in the extent to which the bond proceeds are truly invested in green and sustainable projects.

How important are sustainability ratings? Do you already deploy these ratings in your supervision? Are the ratings robust enough for an appropriate estimation of risks and opportunities?

The current environmental, social and governance (ESG) ratings of banks do not reflect their lending to companies with high carbon emissions. Similarly, they are also not an appropriate measure of credit risk. These ratings are more concerned with social responsibility.

Carbon emission figures could provide a better proxy for the physical and transition risks to which companies are exposed.

An issue that comes up repeatedly is that each agency uses different metrics for their sustainability ratings: the same data are assessed or weighed in different ways. Should providers therefore report several sustainability ratings or just one?

The fact that ratings vary so much across providers is largely due to three factors: first, the underlying raw data and calculation methodologies; second, the methodologies used to compute the ratings; and, third, the qualitative elements underlying each assessment. Therefore, providers should present metrics and ratings in a transparent way so that investors can understand them.

What is even more important is that data gaps in the underlying data are closed. This brings us back to disclosure, for which the taxonomy framework and reliable labels for sustainable financial products – including an EU standard for green bonds – are crucial.

Does the ECB deploy green and sustainable investments in its fund management – of pension funds, say? If so, what are the investment criteria, what kinds of investment are excluded?

The pension funds are managed autonomously. The management has undertaken to adhere to the United Nations Principles for Responsible Investment and thus to include sustainability standards.

In addition, we have increased the share of green bonds in our own funds portfolio and will continue to do so in future. We follow the Sustainable and Responsible Investment Guide for Central Banks’ Portfolio Management from the Network for Greening the Financial System, of which we are a member.