



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Seán Kelly  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 6 July 2022

L/CL/22/166

**Re: Your letter (QZ-014)**

Honourable Member of the European Parliament, dear Mr Kelly,

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 26 April 2022.

The European Central Bank (ECB) launched its targeted longer-term refinancing operations (TLTROs) in 2014 to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. Empirical evidence suggests that, since their launch, TLTROs have led to a broad-based easing of bank-based financing conditions, supported the recovery in credit provision and shielded euro area banks from adverse global shocks. They have therefore provided substantial support to the euro area recovery and improved the outlook for price stability.

There have been three series of TLTROs since the initial launch in 2014, with the last operation from the TLTRO III series settled in December 2021. Across the three series of TLTROs, eligible loans were defined as loans to non-financial corporations and households resident in the euro area, including non-profit institutions serving households, but excluded loans to households for house purchase. Loans for house purchase were considered to be adequately served by the banking sector and their exclusion was designed to avoid contributing to potential financial imbalances in housing markets. In line with their treatment in the statistical

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framework<sup>1</sup>, which is the basis for TLTRO reporting, loans to households for house purchases include loans for refurbishment purposes in all euro area countries.

As part of our 2020-2021 strategy review, we reflected on a broad range of possible instruments within our mandate that could be used to incorporate climate change considerations into the ECB's policy framework. As outlined in the report published in the context of the strategy review, the feasibility of refinancing operations with a green or energy efficiency target, like those mentioned in your letter, crucially hinges on the availability of a proper definition of these criteria and the ability to measure them reliably. While ongoing regulatory developments can be expected to improve data availability over time, significant challenges persist in relation to data coverage and quality, as well as verification processes and capacities.<sup>2</sup> In July 2021, the ECB climate change action plan was announced, setting out the priorities determined by the ECB Governing Council.<sup>3</sup> In line with the timeline announced in our action plan, the Governing Council recently decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework, and the ECB's work is progressing as outlined in the climate roadmap.<sup>4</sup> Looking ahead, the Governing Council is committed to regularly reviewing the measures that have been decided, assessing their effects and adapting them, if necessary.

In your letter, you also enquired about the European Banking Authority (EBA)'s recommendations regarding the disclosure of energy performance indicators. In January 2022, the EBA published the final draft implementing technical standards (ITS) on Pillar 3 disclosures on environmental, social and governance (ESG) risks.<sup>5</sup> For their real estate portfolios, eligible institutions will be required to disclose information on the energy efficiency of the underlying residential and commercial real estate collateral, including the distribution of collateral by energy performance certificate (EPC) label and energy consumption. The ECB has already stated that it expects institutions to disclose climate-related risks that are material to them. In 2020 the ECB published a review that was the first of its kind, looking at its supervised institutions' disclosure of climate-related and environmental risks. The review found that, in 2020, only 3% of the institutions met the ECB's minimum expectations. In 2022 the ECB published an updated version of its analysis, which saw this figure increase to 6%. In this report, the ECB looked at whether institutions already disclose information about EPCs for their

<sup>1</sup> See Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast) (ECB/2013/33) (OJ L 297, 7.11.2013, p. 1). See also *Manual on MFI balance sheet statistics*, ECB, January 2019, available at: <https://www.ecb.europa.eu/pub/pdf/other/ecb.manualmfibalancesheetstatistics201901~d2ebf72987.en.pdf>.

<sup>2</sup> For more information, see "Climate change and monetary policy in the euro area", *Occasional Paper Series*, No 271, ECB, Frankfurt am Main, September 2021, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op271~36775d43c8.en.pdf>.

<sup>3</sup> See "ECB presents action plan to include climate change considerations in its monetary policy strategy", *press release*, ECB, 8 July 2021, available at: [https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708\\_1~f104919225.en.html](https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html).

<sup>4</sup> For more detailed information, see "ECB further incorporates climate change into its monetary policy operations", *press release*, ECB, 4 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704~4f48a72462.en.html>.

<sup>5</sup> See "Final draft implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449a CRR", available at: <https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks>.

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financed real estate portfolios, which may be an important indicator of exposure to transition risk. More than 80% of institutions still do not do so. Some institutions (around 4%) disclose EPCs only for their residential real estate portfolios and others (around 3%) only for their commercial portfolios. In its supervisory priorities for 2022-2024, the ECB has already committed to follow-up on banks' disclosure practices and their adherence to supervisory expectations laid down in the ECB Guide on climate-related and environmental risks.<sup>6</sup> In addition, ECB Banking Supervision is currently carrying out a climate stress test, which aims to identify the vulnerabilities and challenges faced by banks when quantifying and assessing climate-related risk, as well as to establish best practices. A thematic review is being conducted in parallel, assessing the progress of banks towards improving the management of climate-related and environmental risks. Finally, the entry into force of the ITS on Pillar 3 disclosures on ESG risks in 2022 will involve a supervisory assessment of the newly required disclosures of eligible institutions, also including EPC disclosures. The ECB supports ongoing regulatory developments that are expected to increase the availability of information regarding energy efficiency for banks.

Yours sincerely,

[signed]

Christine Lagarde

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<sup>6</sup> See "ECB Guide on climate-related and environmental risks", available at: <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf>.

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