Results in brief:

- The CSPP appears to be a **lost opportunity for launching investments in line with the ecological transition**: 63% of assets bought through the CSPP were issued by businesses operating within the most carbon emitting sectors: extraction and distribution of fossil energy sources, car manufacturing and equipment, most energy-consuming sectors, utilities. These results are consistent with previous studies carried out while the CSPP was still running.
- On the other end, **sectors and activities most in line with climate objectives represent a tiny fraction of the CSPP**; for instance, green bonds across all sectors and the railway sector represent together some 7% of the portfolio.
- Analysing debt maturities **does not reveal any "green trend"**: carbon-intensive sectors are just as present on long-term assets, while green bond maturities are below average.
- Estimations of individual portfolios for the six central banks who took part in the CSPP reveal important differences explained by the structure of the underlying corporate bond market:
    - Assets linked to **fossil energy extraction and distribution** are much more present in the portfolios of Banca d'Italia and Banco de España than for the other central banks;
    - **Car manufacturing** assets are particularly present in the Bundesbank portfolio;
    - The **Banque de France portfolio** is more evenly distributed between different sectors, and the four climate-policy relevant sectors combined weigh at around the European average. However, a detailed estimation of the carbon emissions-exposure should adjust for the fact that the utilities sector is most about nuclear energy (which emits less carbon than fossil energy sources).

Recommendations in brief:

- Given the ECB intends to maintain its balance sheet at the current levels for years to come, we suggest following measures to integrate carbon impact analysis into investment and refinancing criteria immediately:
    - A public announcement making clear that from January 1st 2020, **carbon footprint disclosure will become an eligibility criterion for all reinvestment of proceeds from the CSPP. Any future asset acquisition will be contingent upon carbon footprint disclosure for the debt-issuing firm.** For the companies from the most polluting sectors, this non-financial disclosure should include indicators of business restructuring such as parts of revenues stemming from different business activities.
    - A public announcement making clear that from January 1st 2020, **the ECB will no longer use any rating agency which has not integrated carbon footprint assessment** systematically into its credit ratings, using a transparent methodology.
    - Clarify the responsibilities for evaluating these methodologies used to estimate carbon footprints (and eventually for all non-financial/ESG disclosure) within the European system for financial supervision: on January 1st 2020 at the very

latest, the ECB itself and/or relevant supervisory agencies (ESMA, EBA, EIOPA) should have in place **technical expertise necessary for assessing the methodologies used by rating agencies for non-financial disclosure**.

- Alternatively, we recommend putting in place a **public rating agency collecting and assessing non-financial information**; the data collected as well as the methodologies applies should be made public and be accessible to the research community.

- Steering reinvestments in a way to start immediately to reduce the carbon footprint of the CSPP portfolio, despite imperfections in the existing sector-level analysis and without waiting for results from the "green taxonomy" or other legislative proposals prepared by the European Commission.

    - From 2019 and on, steering reinvestments to **reduce the fraction of the most carbon emitting sectors within the CSPP portfolio**. The shift should be incremental and form a trajectory from 2019-2030 for exiting these sectors.
    - In parallel, increasing the fraction of green bonds and railway transport securities within the portfolio, as well as other sectors contributing to an overall decrease of the economy's carbon footprint. **This should apply particularly to long maturity holdings.** If the current supply of such assets proves insufficient to fully compensate for reducing the carbon-intensive sectors, other programmes could easily compensate for the overall reduction of the CSPP portfolio.

- <u>A medium-term objective</u> should be to **integrate the carbon footprint (and later on a full ESG assessment) as a new criterion within the collateral eligibility framework** and apply it to the single list of assets used for refinancing purposes. This requires following:
    - A transparent **methodology** based upon independent scientific research to provide carbon footprint ratings (and later on, ESG) for all asset classes accepted as collateral.
    - Clear **objectives** for steering the portfolio decisions based on assets' carbon footprint impact as revealed by the methodology, and shaping a trajectory of increasing refinancing costs for the most polluting sectors.

- <u>Over the longer term,</u> the carbon footprint analysis should be completed by a full-fledged ESG analysis. This implies a much **stronger coordination with Member States' fiscal policies and investment programs prepared** at different levels: local/regional, national and European (notably, the Investment Plan for Europe and European Investments Banks activities). This would have three elements:
    - Public and private investment plans conceived at local/regional and national levels, including those financed by European funds. The local and regional level are particularly important in order to integrate plans for protecting biodiversity.
    - **Public certificates** for transition-relevant projects and **public labels** for associated debt issuance.
    - Full integration of this debt assets into the **ECB collateral framework**.