

Tilt and Run – ECB climate policy update

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Yesterday the ECB announced further steps to incorporate climate change into their monetary policy operations.¹ The Climate road map announced in July 2021 had already given H2 2022 as the timeline for changes to be made, so getting firmer practical commitments to action was expected.²

As per the announcement, security redemptions in the CSPP – ECB’s corporate bond purchase program - will be more selectively invested to tilt the portfolio towards better climate performers, “measured with reference to lower greenhouse gas emissions, more ambitious carbon reduction targets, and better climate-related disclosure”.³ This plan will affect an estimated EUR 30bn each year⁴ (with the total CSPP portfolio being around EUR 386bn).

The ECB is the largest investor in the European corporate bond market, owning on average nearly 30% of each issue they have bought. Losing an investor of that size should have a significant negative impact on refinancing opportunities for high intensity emitters, and will likely produce a meaningful relative widening of those spreads.

Our analysis (below) however shows that many of the high emitting issuers have termed out debt structures, meaning that the impact from only maturing bonds not being reinvested could be more limited. We would welcome a reallocation of the portfolio amongst longer dated securities as well.

Adding to the CSPP measures, the ECB is also adding other climate-related tweaks to its operations: The Eurosystem⁵ will urge rating agencies to be more transparent on how they incorporate climate risks into their ratings, and be more ambitious on their disclosure requirements on climate risks.” There will also be additional restrictions in the collateral eligibility framework; there will be a limit on the share of assets issued by entities with a high carbon footprint that can be pledged by an individual counterparty.⁶ Additionally, climate change risks will be considered when reviewing haircuts.

¹ [“ECB announces climate tilt to EUR 30bn annual corporate bond reinvestments”](#), Responsible Investor, 4 Jul 2022, [“ECB Climate Plan Seen Hitting Debt Costs as Polluters Targeted”](#), Bloomberg, 4 Jul 2022, [“ECB ‘tilts’ bond programs towards greener companies”](#), Environmental Finance, 4 Jul 2022 .

² See [“An ECB rapid decarbonization plan”](#), AFII, 20 Oct 2020.

³ [“ECB takes further steps to incorporate climate change into its monetary policy operations”](#), ECB, 4 Jul 2022.

⁴ [“ECB to Adjust Corporate Bond Holdings to Reflect Climate Risk”](#), Bloomberg, 4 Jul 2022.

⁵ The Eurosystem is the ECB, plus the national central banks of members who have adopted the Euro.

⁶ For a discussion of the possible cost-of-capital subsidization through collateral framework eligibility, see [“The ECB and Alberta’s oil production holiday”](#), AFII, 26 Oct 2020.

High emissions issuers debt maturity structures

Our earlier analysis identified that the carbon footprint of the CSPP portfolio was highly concentrated; the top-25 fossil issuers comprise 90% of the total footprint of the portfolio.⁷ No issuer will be excluded, but weights in the reinvestments of the CSPP will be adjusted for climate impact. The precise details have not been released, but it will be based on current emissions, transition plans, and climate disclosure.⁸ Allowing disclosure to improve weightings may seem weak, it is an important first step towards improving climate impact. The head of ECB's market operations has explained that the motivation is to encourage companies to transition; to give an incentive to be greener and so remain included in the portfolio.⁹ We hope emissions and credibility of transition plan will be the more significant drivers of allocations. The ECB will also publish climate-related information on its holdings commencing in Q1 2023.

The announcement does not indicate an outright selling of the current portfolio but only realigns investment of proceeds from maturing bonds as well as coupon payments. We have looked at the CSPP portfolio, to identify bonds maturing in 2022-2024 to see which issuers could lose investment from the ECB more quickly and identify 6 issuers who have over 30% of their CSPP-bonds maturing before the end of 2024, see Figure 1.

Notably, only one of our top 5 emitters has any debt maturing before the end of 2022, and only two before the end of 2023, neither of which is that material in size compared to the total nominal of purchased issues of either company. This likely limits the impact on for some of these high emitters. Given the ongoing comments by ECB reiterating their commitment to tackle climate change, investors should consider if these steps will be followed by additional re-allocations, which may impact issuers with longer term structures.

Nevertheless we recognize this is an important first step for the ECB to show the market that climate impact will be a factor in their investment choices, and so the funding support enjoyed by CSPP-eligible issuers will be spread more responsibly going forward.

⁷ [“Wind down \(of CSPP\) is Coming.”](#), AFII, 8 Jun 2022; [“Market update: Recent performance on high carbon emitters in CSPP”](#), AFII, 27 Jun 2022.

⁸ [“ECB takes further steps to incorporate climate change into its monetary policy operations”](#), ECB, 4 Jul 2022

⁹ [“ECB to revamp corporate debt holdings to favour greener firms”](#), Reuters, 4 Jul 2022.

Figure 1. CO₂ emissions of CSPP holdings. Source: AFII, ECB, Bloomberg.

Ticker	Issuer name	Scope 1+2 (+3)CO ₂ e Mtpa	No. of bonds in CSPP	Total nominal (EURmn)	Percentage in the next 3 years	2022	2023	2024
RDSALN	Shell International Finance BV	986	15	15,250	18%	0	0	2,750
TTEFP	Total Capital International S.A.	730	18	16,300	24%	500	2,000	1,450
BPLN	BP Capital Markets BV	598	2	1,500	0%	0	0	0
GLENLN	Glencore Capital Finance DAC	383	3	2,050	0%	0	0	0
ENIIM	ENI Finance International S.A.	365	17	14,600	18%	0	1,000	1,650
MTNA	ArcelorMittal S.A	195	4	2,396	69%	0	1,117	529
REPSM	Repsol Europe Finance	179	8	5,350	16%	0	0	850
OMVAV	OMV AG	123	12	7,750	32%	750	1,250	500
ERDLAG	Erdöl-Lagergesellschaft m.b.H.	123	1	456	0%	0	0	0
ENELIM	ENEL Finance Intl N.V.	117	22	21,801	27%	1,949	885	3,000
HOLNSW	Holcim Finance (Luxembg) S.A.	102	11	7,588	16%	0	869	320
RWE	RWE AG	91	3	1,850	0%	0	0	0
EOANGR	E.ON Intl Finance B.V.	85	29	19,950	31%	2,000	2,050	2,050
HEIGR	HeidelbergCement AG	76	8	6,150	23%	0	0	1,400
FUMVFH	Fortum Oyj, Helsinki	69	3	2,500	40%	0	1,000	0
ENGIFP	Engie S.A.	47	25	17,603	13%	1,103	500	700
ENGALL	Engie Alliance GIE	47	1	1,000	100%	0	1,000	0
LYB	LYB International Finance II	36	2	1,000	0%	0	0	0
CRHID	CRH Finance DAC	36	4	2,600	19%	0	500	0
LIN	Linde Finance B.V.	34	11	7,150	13%	0	650	300
SLB	Schlumberger Fin. France SAS	34	6	4,900	10%	0	0	500
EDF	Electricité de France (E.D.F.)	28	12	15,950	28%	0	2,000	2,500
CTEFRA	Coentreprise de Transport d'Electricité	28	3	2,920	17%	0	0	500
NTGYSM	Naturgy Capital Markets S.A.	26	12	7,555	23%	0	551	1,154
BZUIM	Buzzi Unicem S.p.A., Casale Monferrato	21	1	500	100%	0	500	0

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