CHILDREN'S INVESTMENT FUND FOUNDATION

8th October 2021

President Lagarde
European Central Bank
Sonnemannstrasse 22
60314 Frankfurt am Main
Germany

Chair Campa,
European Banking Authority
Tour Europlaza
20 avenue André Prothin
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France

Dear President Lagarde, Chair Campa,

The European Central Bank (ECB) and European Banking Authority (EBA) must mandate banks to disclose climate action plans and provision additional capital against GHG emissions-intensive activities whilst reflecting the same climate principles in monetary policy

I write as the Chair of the Children's Investment Fund Foundation (CIFF), one of the world's largest grant funders of climate change action. A climate-safe world is vital for a healthy and sustainable future for children. As stated by UNICEF[i], the climate crisis is putting the lives of 1 billion children at severe risk. In 2020 CIFF disbursed over $150mn of climate grants, including to a wide range of NGOs working on finance.

As the President of the European Central Bank you have taken initial steps to address the threat of climate change. The ECB's recent strategy review formally recognised the importance of climate change and outlined some initial actions to adjust monetary policy.

As highlighted recently by the International Energy Agency (IEA)[ii], to meet the goals of the Paris Agreement, investments in new fossil fuels must stop immediately and the share of fossil fuels in energy supply has to fall steeply. The UN Production Gap Report[iii] underlines that this decline must start now: global fossil fuel production should fall by 6% each year from 2020 to 2030.

However, not only are Eurosystem banks continuing to channel financing to fossil fuels, they are failing to provide basic levels of transparency about the extent of the emissions they are financing. Since the Paris agreement, European banks have provided more than $553bn of fossil fuel financing, with 16 ranking in the top 60 globally.[iv] 115 investors with assets under management (AUM) of $4.2trn have written to 12 Eurosystem banks[v] setting out expectations for coal phase-out announcements by COP26 and short-term 5-year targets covering all financing by their 2022 AGMs.

The ECB and EBA should not leave the orderly climate transition of the banking sector to NGOs and investors and must take the following immediate steps:

1. Mandate banks to disclose the absolute carbon emissions of their loan book and underwriting business by sector, using PCAF or an equivalent framework. Actual data rather than estimates requires all large corporate clients to disclose the full scope of their emissions. This disclosure must take place ahead of the 2023 Corporate Sustainability Reporting Directive, we cannot afford several years of further delay.

2. Require banks to set and disclose 5-year emissions reduction targets for their loan book and underwriting and provide a Climate Action Plan for achieving those targets[vi]. The EBA cannot supervise an orderly transition without this information.
3. Mandate banks to work with all large clients to develop and finance their own 5-year Climate Action Plans. Without these corporate plans in place banks will not be able to transition their own businesses[vii]
4. Impose additional systemic risk buffer capital requirements to ensure that all lending for fossil fuel expansion is treated as equivalent to equity exposure[viii] to reflect the risky nature of this activity per IEA.
5. In line with the G7 decision to end coal financing[ix], take a lead within the BCBS to accelerate work on pillar 1 capital requirements for all coal-related lending, which is incompatible with the Paris agreement. There is clear precedent for rapid action given recent BCBS guidance on cryptocurrencies requiring 1250% risk weightings.
6. Accelerate the implementation of proposed changes to the ECB Corporate Sector Purchase Programme, holding only assets issued by companies aligned with an orderly transition in line with the Paris agreement. The Climate Bonds Initiative has issued a 'Transition Bond' framework which will link to investor-backed initiatives such as the CA100+ net zero company benchmark and the ACT framework, providing the basis for assessing the forward-looking Climate Action Plans of major companies.
7. Collateral eligibility rules for all ECB facilities should be adjusted in the same way to allow only assets backed by companies who are delivering on credible 5-year Climate Action Plans.
8. Apply the same focus on the disclosure and performance of Climate Action Plans to foreign exchange reserve management, including sovereign debt and money market funds, .
9. The ECB should work with the European Parliament and European Commission to develop a framework for green and transition-aligned LTROs and green supporting factors, establishing them as a key feature of securing an orderly climate transition[x].

Whilst individual banks can seek to reduce their own exposure to transition risk in the short-term, without an end to fossil fuel financing and the delivery of Climate Action Plans on an economy-wide basis, the financial system as a whole will be increasingly vulnerable. The financial sector cannot be left to manage its own role in the climate transition. Current initiatives such as the UN Principles for Responsible Banking, and the newly established Net Zero Banking alliance do not cover all banks, and do not mandate full disclosure, credible action plans and an end to risky fossil fuel lending. 2050 Net Zero commitments alone are meaningless.

We would welcome the opportunity to meet with you and discuss the ECB and EBA's response to climate change, and how civil society can support this critical agenda.

Yours sincerely,

Sir Chris Hohn
Chairman CIFF
CC: Mairead McGuiness; Eric Ruscher; Matteo Salto; Pascal Canfin MEP; Irene Tiangali MEP; Paul Tang MEP

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[i] https://www.unicef.org/media/105376/file/UNICEF-climate-crisis-child-rights-crisis.pdf
[ii] https://www.iea.org/reports/net-zero-by-2050
[iii] https://www.unep.org/resources/report/production-gap-2020?__cf_chl_managed_tk__=pmd_6cd6b01716cb7198b38bac5dde3f12400b3cb4e8-1627847715-0-gqNtZGzNAw2jcnBszQeO

[iv] https://www.ran.org/bankingonclimatechaos2021/
[v] https://shareaction.org/investors-call-on-banks-to-strengthen-climate-ambitions-before-cop26/
[vi] https://sayonclimate.org/climate-action-plans/
[vii] 53 global investment firms representing $14trn of AUM have set out their expectations for all companies to disclose climate action plans including 5-year targets: https://www.iigcc.org/news/usd-14-trillion-investors-call-for-consistency-on-corporate-net-zero-alignment-plans/
[viii] https://www.finance-watch.org/publication/breaking-the-climate-finance-doom-loop/
[ix] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/988551/g7-climate-environment-communique.pdf
[x] https://www.lse.ac.uk/granthaminstitute/publication/net-zero-central-banking-a-new-phase-in-greening-the-financial-system/