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ECB Publishes Climate-Related Statistical Indicators to Promote Assessment and Measurement

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On January 24, the European Central Bank (ECB) announced the publication of "new experimental and analytical indicators" that are intended to help analyze climate-related risks in the finance sector and monitor green transition. This development follows the ECB's detailed climate action plan announced in July 2021.

The indicators cover three areas:

- **Experimental indicators on sustainable finance**. These indicators cover debt instruments issued or held in the EU that are labelled as "green," "social," "sustainability" or "sustainability-linked." The ECB observed that in addition to "boosting transparency, these indicators also help track progress on the transition to a net-zero economy. That said, the lack of internationally accepted and harmonised standards on what defines a green or sustainable bond makes the data less reliable overall."

- **Analytical indicators on carbon emissions financed by financial institutions**. These indicators provide information on the carbon intensity of the securities and loan portfolios of financial institutions, and on the financial sector's exposure to counterparties with carbon-intensive business models.

- **Analytical indicators on climate-related physical risks**. These indicators cover the impact of natural hazards, such as floods, wildfires or storms, on the performance of loans, bonds and equities portfolios.

In its accompanying press release, the ECB acknowledges that the new indicators are currently a work in progress. Experimental data does not yet correspond to the quality requirements of official ECB statistics and the analytical data has "a lower quality and certain – sometimes significant – limitations." Although the ECB observes that the data should be used with caution, it has published the indicators to generate dialogue with “the statistical and research community and with other key stakeholders on how to better capture data on climate-related risks and the green transition.” The ECB intends to work further with national central banks to refine the indicators and to improve both methodologies and data sources.

Executive Board member Isabel Schnabel stated that “we need a better understanding of how climate change will affect the financial sector, and vice versa. For this, the development of high-quality data is key . . . The indicators are a first step to help narrow the climate data gap, which is crucial to make further progress towards a climate-neutral economy.”

Financial regulators around the world increasingly have been driving the financial industry to acknowledge, assess, address and report on sustainability-related risks. In the last few months, for instance, the European Banking Authority published its roadmap on sustainable finance, which outlines the “objectives and timeline for delivering mandates and tasks in the area of sustainable finance and environmental, social and governance (ESG) risks;” the Australian Prudential Regulation Authority conducted a climate vulnerability assessment pursuant to which Australia’s largest banks outlined how they would amend both their risk appetites and lending practices in response to increasing climate-related losses; Sam Woods, Deputy Governor for Prudential Regulation of the Bank of England, has publicly stated that “the most effective firms had undertaken a methodical consideration of how climate risks could impact capital,” and have “demonstrated effective practice by capturing climate in their macroeconomic scenarios or using specific climate scenarios to evidence their assessment of risk;” and the Deputy Governor of the Banque de France, the French central bank, Sylvie Goulard, stated in a speech that central banks need to take more aggressive action regarding nature-related risk given that “monetary assessments of ecosystem services have many limitations,” in part because of their complexity and also because “shocks” in one sector can have significant impacts on other sectors. U.S. financial regulators also have been more active, although still lagging their European counterparts.

Nonetheless, the recent ECB publication demonstrates that challenges remain even for proactive financial institutions seeking to assess and report on climate-related opportunities and risks. Data limitations and the current lack of internationally accepted and harmonized standards on what constitutes a green or sustainable investment remain hurdles. While we anticipate these obstacles to diminish over time, in the current environment, financial institutions should deal with data and taxonomic problems through traditional solid governance procedures and expertise and accurate and thorough disclosure.

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