

# Sustainable and Responsible Investment Charter

## INTRODUCTION

Sustainable and responsible investment (SRI) principles are increasingly shaping the Bank's activities. In particular, the Bank recognises sustainability as a fourth objective of its strategic asset allocation policy, alongside liquidity, safety and return. In this context, the Bank's SRI Charter ("the Charter") plays a crucial role by informing and guiding its non-monetary policy portfolio management.

The Charter defines a high-level framework for considering sustainable and responsible investment aspects in the context of management of the Bank's own reserves. It is intended to serve as a reference for the teams involved in the design and implementation of the Bank's investment activities. The Charter acknowledges that its implementation will be influenced by growing awareness and understanding of the impact of environmental, social and governance factors as well as by other considerations, such as risk, return and operational feasibility.

The five pillars of the Charter form the basis for the Bank's SRI approach and are the result of a lengthy process to further integrate sustainability aspects into the Bank's portfolio management. In fact, such aspects have already been embedded in the Bank's practices for some time, both concretely, such as through issuer exclusion processes, and in less tangible ways, for example through the mindset expected of portfolio managers. Building on what is already in place, the Charter will guide and strengthen the further integration of SRI features into the Bank's practices in the coming years. While the general direction is known, the Charter will be fine-tuned and updated on an as-needed basis.




## OBJECTIVES

By publishing and implementing a Charter, the Bank aims to:

- **address the impact of environmental, social and governance-related risks on its investments**, with materiality determined on the basis of both non-financial and financial grounds, such as the amplifying effects of climate-related transition and physical risks on traditional financial risks. The Charter aims to achieve this by informing and guiding investment strategies and risk management practices for non-monetary policy portfolios.
- **support the transition to a sustainable and inclusive net-zero economy** by adopting best practices early on. The Charter provides a framework for the Bank's SRI activities and disclosures. For example, it is closely aligned with the [Bank's climate-related reporting](#) in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The Charter is based on a double materiality perspective, meaning it is concerned with both how sustainability issues affect companies in which the Bank invests and the impact of these companies on society and the environment.

## SCOPE

 <b>Assets</b>	 <b>Topics</b>	 <b>Sectors</b>
<p>The Charter applies to all non-monetary policy portfolios for which the Bank is the sole manager. The approach described below is intended to ensure consistent coverage of all in-scope assets, while allowing for flexibility to accommodate differences such as operational aspects and transition trajectories. Gold and holdings of special drawing rights allocated by the International Monetary Fund are excluded due to methodological challenges.</p>	<p>To be future-proof, the Charter considers a broad range of environmental, social and governance-related topics, such as climate change, biodiversity loss, social inequality and corporate governance. Initially, more emphasis will be put on climate change, consistent with the climate change considerations that have been incorporated into the Eurosystem's monetary policy strategy.</p>	<p>The Charter covers most of the economy, with a limited number of exclusions. This approach is designed to ensure sound investment decision-making and drive real progress towards a sustainable and inclusive net-zero economy, including in hard-to-abate sectors.</p>

## GOVERNANCE

The pillars and targets of the Charter were developed with input from the Bank's staff and senior management. The Investment Committee endorsed the Charter, which was then approved by the Board of Directors. The Investment Committee is responsible for overseeing implementation of the Charter and deciding on tactical aspects, while the Board of Directors is responsible for taking decisions on the Charter's strategic direction, pillars and targets. Colleagues from the Financial Markets Department are responsible for implementation of the Charter and the frequent monitoring of key indicators. These experts will report to the Investment Committee and the Board of Directors on the progress made and challenges faced, so as to strengthen decision-making at the appropriate levels. In addition, involvement of the Bank's Corporate Social Responsibility Board, Climate Hub and TCFD team will ensure a consistent approach to SRI across the Bank. The Charter will be revised regularly and updated as required in order to incorporate the most recent insights.



## FIVE PILLARS

Management of the Bank's non-monetary policy portfolios will be informed and guided by the following five pillars.



Screening



Embedding



Financing



Disclosing



Engaging



### Screening

Certain assets, issuers and counterparties will be excluded based on:

- Rules and regulations on anti-money laundering and counter-terrorist financing, corruption and tax havens, including the [EU list of non-cooperative jurisdictions](#) and the Financial Action Task Force's list of [High-Risk Jurisdictions subject to a Call for Action](#).
- Respect for human, civil and labour rights, through compliance with internationally accepted standards (or norms), such as the [Ten Principles of the UN Global Compact](#), the [ILO Declaration on Fundamental Principles and Rights at Work](#) and the [OECD Guidelines for Multinational Enterprises](#).
- Risks related to the nature of the economic activity in question, using maximum revenue thresholds to ensure a coherent approach across targeted sectors. This approach allows the direct exclusion of specific economic activities, such as the cultivation of tobacco and the production of controversial weapons, in accordance with the Ottawa Treaty and the Oslo Convention. At the same time, it provides a framework for setting increasingly stringent thresholds to support the transition to a net-zero economy, which is particularly relevant for certain types of economic activity, such as thermal coal mining and unconventional oil and gas extraction (e.g. oil sands, Arctic drilling and hydraulic fracturing).
- Performance as measured by environmental, social and governance (ESG) metrics, with a minimum performance level required of issuers and counterparties, assessed with reference to external ESG data sources.

Screening will be carried out using both internal analyses and external data. In accordance with the existing limit framework, a protocol has been agreed to deal with breaches, including guidance on new investments and divestments. The Bank will monitor and review corrective measures taken by issuers found to be in breach and take investment decisions accordingly. The abovementioned screening criteria will apply to new investments by the end of 2023.

This pillar will initially focus on "negative screening" (exclusion) as opposed to "positive screening". The latter could be added at a later stage, for example by overweighting best-in-class issuers.



## Embedding

Criteria related to climate change and other ESG issues will be embedded in investment decision-making by:

- committing to the long-term target of net-zero greenhouse gas emissions by 2050 at the latest, for the aggregate portfolio;
- committing to gradually setting and disclosing climate-related intermediate targets for selected individual portfolios and their benchmarks;
- incorporating material climate- and ESG-related risks into the risk management frameworks for all relevant portfolios, followed by periodic revisions and updates;
- exploring the impact and integration of ESG-related topics beyond climate change, such as biodiversity loss, social inequality, and diversity and inclusion, for the aggregate and individual portfolios; and
- incorporating the Charter's targets into strategic asset allocation exercises.



## Financing

By investing in so-called thematic assets, such as green, social and sustainability bonds, the Bank helps to finance the transition to a sustainable and inclusive net-zero economy. To ensure that proceeds from bond issues are allocated to this end, the Bank will invest in securities aligned with international standards,<sup>1</sup> as verified by a second party. Purchasing these types of securities also supports the UN Sustainable Development Goals, with such a contribution often laid out explicitly in the bond framework. The Bank had around 10% of its aggregate portfolio invested in thematic assets at the end of 2022 (amounting to around €2 billion) and aims to continue growing this share. In the future, other relevant frameworks, such as the EU Taxonomy, can be taken into account.

<sup>1</sup> Thematic assets must meet ICMA's Green Bond Principles, Social Bond Principles or Sustainability Bond Guidelines, as confirmed by a second-party opinion, or have been externally verified as complying with the CBI's Climate Bonds Standard. Once adopted, the EU Green Bond Standard could replace or complement these two frameworks.



## Disclosing

Annual reporting on implementation of the Charter and its impact, including the disclosure of portfolio performance as measured against climate- and ESG-related metrics, will be carried out in accordance with internationally recognised frameworks. As a Eurosystem member, the Bank will make annual [climate-related disclosures](#) for its non-monetary policy portfolios based on the TCFD recommendations. Starting in 2023, such reporting will enhance transparency on internationally recognised climate-related metrics, such as weighted average carbon intensity, total carbon emissions and carbon footprint.



## Engaging

Internal and external stakeholder engagement on the subject of the Charter and its implementation will be fostered by communicating about the Bank's SRI activities, promoting climate-aligned investing and SRI in general, exercising influence as a shareholder and bondholder to accelerate the transition to a sustainable and inclusive net-zero economy, and collaborating on initiatives that aim to speed up this transition. In this regard, the Bank can build on existing efforts, including participation in SRI-related workstreams of the Eurosystem and the Network for Greening the Financial System, discussions with external asset managers on ESG aspects and the promotion of SRI on its website.

To implement this approach and achieve the above-mentioned objectives, a roadmap and intermediate targets are indispensable. The Bank is in the process of developing such targets, which will be published gradually, along with progress updates, starting in 2024.

The Charter reflects the Bank's commitment to the transition to a sustainable and inclusive net-zero economy. It goes without saying, however, that successful

implementation of the SRI objectives outlined above will depend on the global economy's transition progress. For example, achievement of the net-zero target will depend on whether and to what extent governments are able to meet the targets defined in the Paris Agreement, as the bulk of the Bank's portfolio is currently invested in sovereign bonds due to the nature of central banking activities.