

**COVERED BOND INVESTOR COUNCIL**

Mr Paul O'Connor  
**Chairman of the ECBC**

Ms Annik Lambert  
**Secretary General of the EMF**

June 15, 2012

Sent by email

Dear Paul, Dear Annik,

**ECBC Covered Bond Label Initiative**

The CBIC has been following closely the development of the ECBC labelling project, and was particularly interested in the presentations of the Label Convention and Label governance structure made during the ECBC Plenary meeting held in March 2012. We understand that the project is now entering its final phase. The CBIC would like to positively contribute to the project and hope that these comments will help the establishment of a strong European covered bond market.

The CBIC membership welcomes any market initiative, such as the ECBC Covered Bond Label Initiative, preventing further dilution of the quality of covered bonds. In fact one point of the CBIC mission statement makes a reference to its intent to promote *'the high quality, simplicity and transparency of the product'*. The CBIC represents long-standing investors – who believe that only the most secure assets should be used in cover pools, and keeping covered bonds a simple and strong product.

The CBIC noted that the ECBC Label Convention definition of covered bonds core features is quite broad, so that in fact all UCITS covered bonds can qualify for the label - including specialised ones with ship assets. The CBIC understands that a broad definition will allow the label to reach more easily a 'critical mass', which is key to the success of the label. However the broad criteria do not provide quality information about the labelled covered bonds to the investors, even though it ensures that the demarcation between covered bonds and ABS / ABS-like products, and future possible 'covered bonds' backed by other types of assets is clear. A label of 'quality' as understood by investors will have to rest on the reporting of quality and comprehensive information, in a standardised manner.

In light of this broad definition of covered bonds core features, transparency will therefore be key for investors. The CBIC European transparency standards provide a comprehensive template for disclosure and European-wide reporting standardisation. However the template does also recognise national specificities and includes a

qualitative section where national issuers are asked to agree on common national definitions and explain those. The CBIC transparency initiative has in fact deliberately started by accommodating national common definitions on key concepts instead of imposing European common definitions. The fragmented nature of the underlying national mortgage markets and legislation structures would not have made European definitions feasible in the short term. However we believe that the label by setting nationwide standardisation for transparency is a precondition for any steps towards a European wide agreement on definition, where it makes sense. Transparency will enhance investors' ability to analyse different covered bond programmes and compare standardised information at European level.

The CBIC believes that the limited comprehensiveness of the national transparency requirements may prove problematic for investors to assess the quality of covered bond programmes. The ECBC minimum transparency requirements are seen as the starting point and as part of a progression towards the CBIC transparency template. The CBIC would also encourage ECBC members to focus specifically on the standardisation of the reporting at European level – along the lines indicated in the CBIC template - to help investors to easily compare information.

The CBIC welcomes the infrastructure the label is putting in place for further strengthening of the European covered bond market. It relies rightly on dedicated national covered bond legislation and on the supervision on both the issuing credit institutions and the cover pool. Against this background the label is an important, positive step. It has the merit of defining certain minimum requirements for covered bonds, if only at national level at this stage which does not help the aim of making comparisons across European issuers. To achieve a high quality label and for investors to fully benefit from the label, the CBIC believes an enhanced transparency regime, converging with the CBIC European transparency standards, is key.

The CBIC would be happy to discuss further with you the points made in this letter. The Secretary of the CBIC, Nathalie Aubry-Stacey, can be reached at [Nathalie.aubry-stacey@icmagroup.org](mailto:Nathalie.aubry-stacey@icmagroup.org) should you need further information.

Yours sincerely,



Claus Tofte Nielsen  
CBIC Chairman