Covered bonds are an important component in the financing of the mortgage and public sector markets in Europe. Furthermore the asset class is an important source of term funding for banks. Therefore a thriving covered bond market is essential for the future of the European banking sector and European citizens’ possibility to finance home loans at a reasonable rate.

The ICMA Covered Bond Investor Council is an investor driven organisation, independent of both issuers and dealers, which ICMA supports with secretariat and administrative services. The CBIC comprises a range of investors, diversified by geography, type of activities and size and represents their interests in the European covered bond market. The CBIC promotes the high quality, simplicity and transparency of the covered bond product.

BACKGROUND TO THE TRANSPARENCY STANDARDS

Investors have been asked many times by issuers, in different contexts, what their information needs are. So far there has been no single answer to this question but following the growth of the covered bond market there has been increased fragmentation in the information provided by issuers.

The CBIC has noted the positive regulatory treatment of covered bonds in comparison to other financial funding instruments, especially in Europe. The CBIC has also noted the increasing reliance of the European financial sector on a well functioning and resilient covered bond market. The CBIC believes that better transparency is essential to strengthen the covered bond market and in the end will benefit issuers and their customers by lowering funding cost.

Therefore the CBIC has set up a transparency working group which has tried to identify key information which covered bond investors require to make well informed investment decisions. It is expected that the information required would be available on a regular basis (e.g. a half yearly update) to meet investors’ transparency and information needs. Beside the quantitative information provided via a spreadsheet, some qualitative information is requested to explain the figures and make the data more comparable. The CBIC believes that issuers should consider these qualitative elements and ensure a certain degree of consistency, most urgently at national level. The CBIC transparency data list is divided into two main sections and is available in an Excel Format:

- General Issuer data
- Cover Pool data
The information required has been agreed by investors independently from the data requested by rating agencies, and used in their own analytical models.

Assessing issuer risk is also key for covered bond investors. The CBIC recognises that general issuer information may be available in some form in yearly, half yearly, or even quarterly in some instances, financial statements. However CBIC hopes that providing comprehensive information in a standardised manner will make the assessment of issuer risk easier.

The CBIC believes that enhanced transparency of the cover pool would help transparency in the pricing process of covered bonds vis-à-vis senior debt.

Better transparency will result in easier access to information for all investors, big and small. By standardising information requests from investors, the transparency standards would harmonise their requirements thereby providing issuers with clarity when designing their IT and systems specifications.

Finally the CBIC expects that increased transparency will also broaden the covered bond investor base. Increased transparency will be a minimum requirement to meet new investors’ demands for information, notably those coming with a credit analytical tradition, but also provide smaller investors with better information that they may not be able to access otherwise.

However the CBIC is clear that this project is not intended to replicate the commercial work done by rating agencies. Indeed investors will still have to access issuers’ information and other resources in order fully to evaluate risks related to covered bonds. In the same vein, investors will also have to access separate resources to get information about national legal structures for covered bonds.

**DIFFERENT STEPS IN THE PROJECT**

The CBIC transparency initiative was announced at the ECBC plenary meeting in Stockholm on March 31. Following the launch of the project, a public consultation starting on April 14 will be held where comments and feedback from European and national covered bond associations, regulators and all other market participants are invited. After the consultation phase all the responses will be discussed by CBIC members and summarised in a feedback statement, and, if appropriate, the template will be amended accordingly.

It is expected that the final list will be used as a template and guideline for national jurisdictions. However the CBIC believes that transparency standards are a milestone in the roadmap towards a better transparency regime in Europe. In parallel investors may also find the documents useful as a guide in their bilateral meetings with issuers, highlighting investors’ needs and requests on transparency. Filling in the list (fully or partially) and providing the data is of course voluntary. The final version of the data list is expected to be published in September.

The CBIC is well aware that not all jurisdictions or issuers will be in a position to provide all of the requested data. Nonetheless, the CBIC invites all issuers to be as accurate and comprehensive as possible in filling in the data list. Providing consistent data and transparency for their covered bond products should favour issuers and their respective jurisdictions in increasing investors’ confidence in their product. To accommodate the differences between markets and jurisdictions and deviations from the data list which potentially could occur, additional remarks in the data list at the “Additional
comments” section could be given. As aforementioned the transparency standards, and this consultation, are part of the roadmap towards a better transparency regime in Europe.

In addition, we would appreciate it if the national associations would take this data list into consideration when developing their own national common templates, including common national definitions on key covered bonds terms.

**MAIN CONSULTATION QUESTIONS**

The ICMA Covered Bond Investor Council asks market participants to comment on the format and content of the transparency standards. As aforementioned, the standards do not intend to replicate the work of rating agencies, but provide investors with easily accessible information for them to make informed decisions.

Market participants are also asked to comment on the accessibility of the information. It is envisaged that an electronic platform accessible for all will be available.

Deadline for comments is **June 30, 2011**. Comments should be sent to the Secretariat of the CBIC. The Secretariat can be reached at **cbic@icmagroup.org**