

UK response to CBIC consultation on covered bond transparency
from HM Treasury, the Bank of England, and the Financial Services Authority

The UK authorities welcome the publication of the Covered Bond Investor Council's (CBIC) proposed transparency standards as a helpful contribution to the development of internationally consistent standards of disclosure on covered bonds.

We believe that greater transparency will be of benefit to both issuers and investors in covered bonds. In particular, we believe that greater transparency over the quality and performance of the underlying assets should facilitate more efficient price discovery, and so reduce the cost of funding for issuers with high quality assets. It will also increase the long-term stability of that funding while enabling investors to gain greater comfort over the characteristics of the cover pool.

The provision of key data, accompanied by definitions and presented in a consistent format, as proposed by CBIC, provides a helpful platform for international comparison and a baseline for comparison between individual programmes.

In deriving the maximum benefit from developing transparency standards, we believe providing granular data alongside the proposed stratification tables would also be highly beneficial, particularly where there are differences in the definitions of standard terms or characteristics of cover pools.

This is because provision of loan level data allows disclosures of information omitted under stratification tables – for example, the characteristics of a construction mortgage loan with a high debt-to-income ratio differs from an otherwise similar owner occupied residential mortgage. Provision of loan level data allows these differences to be identified, while they may not be specifically captured in a stratification table.

Furthermore, without the provision of the underlying loan data, international differences in the definitions used in aggregating data reduces the comparability of covered bond programmes from different jurisdictions.

In conducting the recent review of the UK's regulated covered bond framework we have observed increased interest in investors seeking to perform their own analyses of cover pools on a proprietary basis. Investors are becoming more advanced in their analyses and data requirements have moved correspondingly.

In the UK, the Bank of England has already mandated loan-level data for covered bonds used in its operations, and the Financial Services Authority (FSA) is consulting on extending this requirement to all UK regulated covered bonds. The UK authorities believe this transparency brings considerable benefits, although these will need to be balanced against any additional administration costs arising from these requirements. The FSA will be working closely with issuers to keep these to a minimum.

In conclusion, the UK authorities support CBIC's work to strengthen covered bond transparency, and would also strongly encourage these and other standards to be expanded to include detailed information on the cover pool, together with the publication of underlying transaction documentation. This will enable a comprehensive assessment of the cover pool, support greater consistency in international reporting standards, and strengthen the European covered bond market.

Notes

The Bank of England's template for loan level disclosure can be found on its website:
<http://www.bankofengland.co.uk/markets/money/eligiblecollateral.htm>.

The Financial Services Authority's proposed standards for loan level disclosure can be found at http://www.hm-treasury.gov.uk/consult_covered_bond_review.htm.