

4 July 2011

Covered Bond Investor Council
Attention: Secretariat of the CBIC
By email: cbic@icmagroup.org

On behalf of the UK Regulated Covered Bond Council (**RCBC**), we welcome the opportunity to provide comments on the matters referred to in the consultation document published by the Covered Bond Investor Council (**CBIC**) on European transparency standards for covered bonds (the **Proposed Standards**). Further information with respect to the RCBC and its members is set out in Annex I.

We support changes which enhance the transparency and harmonisation of the covered bond market and, in turn, improve the efficiency of covered bonds as a funding tool. RCBC members consider the Proposed Standards to be an important initiative in this regard and greatly appreciate the transparency work undertaken by the CBIC to date. In particular, we support the focus of the CBIC on aggregate cover pool data (rather than loan-level data) and consider this appropriate given the nature of covered bond products and the dynamic character of the cover pool. That said, we have a number of general comments on the Proposed Standards as currently drafted.

Below is a summary of our general high-level comments on the format and content of the Proposed Standards, including on the accessibility of the information referred to in such standards.

- *Need for flexibility* - In general, RCBC members consider it desirable to maintain flexibility in respect of any adopted transparency standards to ensure that such standards are able to accommodate and adjust as appropriate for what remains a dynamic funding environment.
- *Considerations regarding non-public and unaudited information* – Certain data referred to in the Proposed Standards is not currently made publicly available in general and, as such, is not audited under present practices. To the extent such information is not audited or otherwise appropriately verified, issuers would be unable to disclose such information without breaching internal policies and/or creating significant potential exposure from a liability perspective. While it may be possible to produce the relevant data and for it to be audited in principle, concerns have been raised that the additional time and cost required for this may outweigh the value or benefit attributed to such information from an investor perspective. Such information would include breakdowns of funding (other than covered bonds) and customer loans by source, rate, maturity bucket and currency, especially when reported by universal bank assurance companies operating out of multiple legal entities in various countries, liquid asset buffer information beyond its aggregate size and margin calculations.

- *Need for clarification* – Certain requirements referred to in the Proposed Standards are not clearly defined or described. In the absence of clarification, the goal of establishing a consistent and harmonised standard will not be achieved as issuers may report certain information on a different basis. For example, it is not clear whether the issuer financial information is to be provided on the issuer's consolidated, solo or group balance sheet. In addition, it is not clear, in circumstances where an issuer has more than one covered bond programme, whether the required information should be provided on a programme basis or in the aggregate. Lastly, it is not clear whether the definitions of certain key terms applied under UK covered bond programmes should also apply to such terms as they are used in the Proposed Standard. Additionally certain definitions relating to, amongst other things, NPV, expected maturity and overcollateralisation will need to be further clarified in relation to application to the UK programmes. Consideration should be given as to whether certain aspects of the information should be covered by policies rather by auditable data fields, such as granular data on insured, guaranteed loans or owner occupied loans. However, more generally RCBC members note that it is difficult to comment on the accessibility of certain information in the absence of certainty as to what is intended to be captured by the relevant data field.
- *Mismatch with existing reporting practices* – In certain cases, data that is made available under existing reporting practices is done so based on a frequency which does not correspond to that contemplated by the Proposed Standards. In these circumstances, it will be very onerous for issuers to comply with such standards without provision for flexibility. At a minimum, it would be helpful if the reporting frequency provided for under the Proposed Standards is consistent with that commonly applied in the context of other equity and debt instruments issued by issuers.

Lastly, we note that there are a number of different transparency initiatives with respect to the covered bond market at present. Indeed, initiatives have been put forward by different industry organisations and by different regulators as well. It would be preferable if a joint approach was adopted where possible. In general, we consider that further work may be required in order to establish a suitable benchmark for all, to avoid certain potential unintended consequences and to strike an appropriate balance from a cost-benefit perspective. This work should not be rushed and the final product should allow flexibility for further market development.

Thank you once again for the opportunity to comment on the Proposed Standards and this response reflects the views of all members of the RCBC. Should you have any questions or seek additional information regarding any of the comments set out above, please do not hesitate to get in touch with the undersigned.



Chris Fielding,
Executive Director
Regulated Covered Bond Council

ANNEX I

The UK Regulated Covered Bond Council (**RCBC**) was formed in 2009. The purpose of the RCBC is to represent UK regulated covered bond issuers in discussions with regulators, legislators, rating agencies and other trade bodies.

The objectives of the RCBC are:

- to promote the UK regulated covered bond product;
- to collect, produce and disseminate information and analysis relevant to UK regulated covered bonds;
- to promote best practice and, to the extent possible, common standards in investor reporting, modelling asset capability and other similar areas; and
- to foster relationships, synergies and campaign for RCBC interests with other industry members (legal counsels, investment banks, trustee and corporate services providers) and other national or multi-jurisdictional industry associates.

The RCBC members include:

- Abbey National Treasury Services plc
- Bank of Scotland plc
- Barclays Bank PLC
- Coventry Building Society
- Clydesdale Bank plc
- HSBC Bank plc
- Leeds Building Society
- Lloyds TSB Bank plc
- Nationwide Building Society
- The Royal Bank of Scotland plc
- Yorkshire Building Society