

COVERED BOND INVESTOR COUNCIL

7 March 2014

CBIC views on the Covered Bond Label

The European Commission is going to host in the coming days a Public Hearing on liquidity coverage requirement and leverage ratio. And the CBIC has already shared its views on the treatment of covered bonds in LCRs in [another statement](#). The CBIC has been supporting the inclusion of covered bonds in extremely high quality liquid assets under the LCRs. Related to this issue is the question of the view of the CBIC regarding the Covered Bond Label and what it brings to the European covered bond market.

Covered bonds remain an important part of the financing of the mortgage and public sector in European markets and are an asset class with a significant public policy role. The covered bond market is also a significant source of bank financing beyond the current government guarantees and as such is part of any future solution to financial stability.

The CBIC has been following closely the development of what is now known as the Covered Bond Label, and was particularly interested in the progress made in the last year. We understand that national Transparency Templates are being reviewed to be in line with the transparency requirements in Article 129 (7) of the Capital Requirements Regulation (CRR). The CBIC would like to contribute positively to this review and so assist in the establishment of a strong European covered bond market.

The CBIC membership welcomes any market initiative, such as the Covered Bond Label, preventing 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 in keeping covered bonds a simple, transparent and strong product.

The CBIC noted that the Covered Bond Label Convention requires compliance with Article 129 of the CRR and UCITS 52(4), a positive and credible step in the current regulatory context and discussions regarding liquidity ratios. However the current Label Convention requirement still does not provide extensive 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 'covered bonds' backed by other types of assets is clear. A label of 'quality' as understood by investors has to rest on the reporting of **quality, up-to-date and comprehensive** information, in a **standardised reporting format**.

The CBIC notes that some National Transparency Templates are close to the CBIC's own transparency standards template, but this is not the case for all templates, and, according to recent research papers, the CBIC is concerned that currently none of the current national transparency templates fulfil the requirements stipulated in article 129(7) of the CRR. Since the CRR became effective, investors have to meet the necessary due diligence conditions to apply a lower risk weighting to their covered bond investment. The CBIC therefore welcomes the fact that the amendments to the National Templates that are being prepared will take this requirement into account.

The CBIC transparency standards template provides a comprehensive framework for disclosure and comprehensive standardisation. Following the CBIC consultation period, 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. Transparency will enhance investors' ability to analyse different covered bond programmes and compare standardised information.

The CBIC welcomes the infrastructure the Label has put in place for further strengthening of the European covered bond market, and notes the improvement in the minimum transparency requirement. It relies rightly on dedicated national covered bond legislation and on the supervision of 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 transparency standards, following a coordinated and step-by-step approach, is key.

More information:

The [ICMA Covered Bond Investor Council](#) ('CBIC') was established in March 2009 to represent the views of investors in the covered bond market. The CBIC is an investor driven organisation, independent of both issuers and the market, for which the International Capital Market Association (ICMA) provides secretariat and administrative support services. ICMA is one of the few trade associations with a European focus having both buy-side and sell-side representation.