

COVERED BOND INVESTOR COUNCIL

Luca Bertalot
Covered Bond Label Advisory Committee
Rue de la Science 14, 2nd Floor
B-1040 Brussels – Belgium

London, May 23, 2016

Dear Luca,

Review of the Covered Bond Label Harmonised Transparency Template - 2016

The International Capital Market Association's (ICMA) Asset Management and Investors' Council (AMIC) runs an ICMA Covered Bond Investor Council (CBIC). AMIC was established in March 2008 to represent the buy-side members of the ICMA membership. ICMA is one of the few trade associations with a European focus having both buy-side and sell-side representation.

The AMIC composition embraces the diversification and the current dynamics of the industry – representing the full array of buy side interests both by type and geography. The AMIC's focus is on issues which are of concern to its broad membership, rather than having a specific product focus.

The CBIC is a permanent working group of AMIC. The CBIC and its members welcome the opportunity to comment on this year's review of the Covered Bond Label Harmonised Transparency Template (HTT) and to contribute to the discussion on the development of this important asset class.

The CBIC approached investors active in the covered bond as part of the processes of drawing up this response. CBIC members welcome the enormous progress made to date by the Covered Bond Label Committee on the HTT. We view this as a very positive development and a strong response to the call by the CBIC in 2012 for enhancements to covered bond pool transparency.

In the absence thus far of enhanced rules on mandatory pool disclosure on a Europe wide basis from the European Commission, industry lead initiatives are essential to the continued good operation and standing of the covered bond market. Therefore, we welcome the fact that the HTT is to be reviewed and enhanced on a regular basis and are taking the opportunity of this review to comment on its effectiveness to date and to provide comments from members on possible features to consider as part of the review process.

The CBIC believes that that Covered Bond Label is indeed a key market qualitative and quantitative database, as described in the Covered Bond Label Convention. In the 2015 Press Release 'Covered Bond Label Issuers Agree Common Harmonised Transparency Template', it is noted that *'the Label [...] is based on [...] investors' due diligence, thus significantly enhancing comparability and convergence across covered bond jurisdictions'*. The comments below show the investors

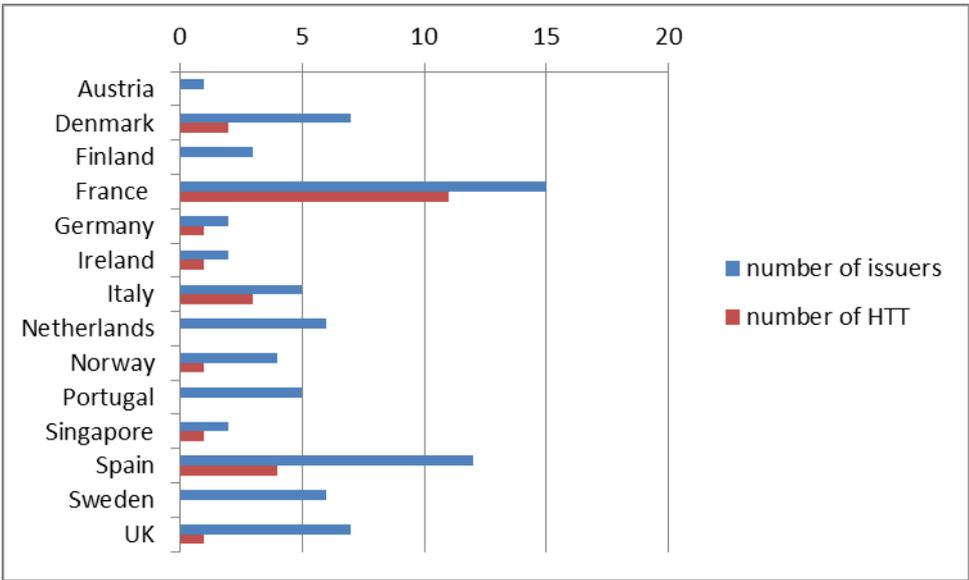
commitment to enhance transparency in the covered bond market but also its support and constructive critical assessment to market-led initiatives and ensuring its success. Moreover, CBIC members are also mindful of the 7-C principles, as announced by our Chairman in May 2012.

- Comparable: The data is reported according to a standardised template
- Comprehensive: The template aims to provide European comparability and not only national
- Continued: The data must be reported and updated on a regular basis
- Coordinated: The template is the result of compromise between investor needs, discussions with issuers’ representatives to ensure the data is easily available
- Circumstantial: The template recognises differences between jurisdictions and holds a key concept list for each jurisdiction to explain their own specificities
- Conceptional: Investors are able to understand and readily use the reported data presented on a stratified basis
- Cost-free/easily available: Free data access via a dedicated platform (links to data)

The CBIC response is based on the information available on the Covered Bond Label website as well as issuers’ website. In addition, we reviewed the various response the CBIC has written over the years regarding enhancing transparency in the covered bond market.

Use of the current templates

We understand that to date 14 National Transparency Templates have been published and that 77 issuers have provided information on 91 labelled cover pools. The Harmonised Transparency Template is one of the most concrete industry-wide steps towards better transparency in the covered bond market. At this stage, we counted 25 HTT templates (32% of the overall covered bond label population), out of which 1 could not be easily accessed and 3 were in pdf format¹. Therefore, the compliant implementation rate is at around 29% at this stage² – nearly half way through the first implementation year.



¹ The same one is not easily accessible and in pdf format.

² The last template was accessed on 23 May 2016.

Many members of the CBIC have commented on how useful this tool is to them as they undertake due diligence on their covered bond investments and potential future investments. Needless to say an increase in the number of templates, issuers and pools covered would significantly enhance the efficacy and credibility of the tool.

In terms of accessibility, from the 22 sample size that we accessed (only the compliant HTT reviewed), it was generally easy to find and access from the links provided on the covered bond label website. It would be easier if all links would refer to HTT as well.

Also we would like to point out that 39 issuers were recorded on the covered bond label database since 1 January 2016 – the implementation date for the 2016 Convention – only 10 issuers offered an actual HTT on their website (only 25%). However nearly 23% of the face value is linked to a HTT – so we welcome the fact that these frequent issuers have taken the positive step of implementing the templates and making them available to investors.

The timeliness and integrity of the data and the ease of access were all highlighted as important features that are welcomed by our members. However, for the HTT to be of real value, all covered bond label issuers should be made up-to-date HTT easily available, in pdf format on their website. Some members suggesting that concrete deadlines should be set and publicised, and we need some commitment that if they are not met, issuers will not be Covered Bond Label compliant anymore.

Areas for consideration in the review

Members have requested enhancements to the template in the below listed areas. These comments have been received as part of the initial requests of the CBIC in 2012, the review of progress against these goals undertaken in 2014, the consultation of members as part of the European Commission's consultation paper of 2015 and a specific call for inputs to the Transparency Template review process made this month. This last call for inputs also leveraged on other suggestions made as part of the European Commission consultation, in particular those comments made by the European Central Bank which were widely supported by members.

- **Definitions**

Greater transparency with regard to definitions used in the template, in particular the legal and/or contractual definition of residential and commercial mortgages in those programmes which allow both assets.

- **Contractual terms**

To the extent that additional contractual terms are of growing importance to many programmes, in particular those regarding bondholder consent to programme changes and contractual obligations to maintain certain levels of collateral, and to the extent that this information is not always easily available other than in long and complex legal documents, any steps to enhance the availability of key contractual terms would be helpful to investors.

- **Repayment schemes**

Specifically, investors should have easy access to a fuller set of information regarding conditions regarding Conditional Pass Through (CPT) structures. For instance, investors should have details regarding when a change to CPT can occur (what criteria's need to be fulfilled); a clear statement whether it can happen only after insolvency of the issuer or whether it can happen before, i.e. is there an option for the issuer to switch repayment type;

Will a change to CPT affect all outstanding CB or only some or only one issue; Will there be a change in coupon payments (e.g. old coupon or switch to Euribor). Similar information should be made available for soft bullet structures, together with information on extension periods.

- **Related counterparties**

Investors would value a greater disclosure on the identities, extent and terms under which third parties are involved in programmes and potential credit exposure to them. This is most obviously with regard to derivative counterparties but could also take into account, for example, asset servicers and account banks. We note that some national disclosure standards already contain this information.

- **Audit trail**

Investors acknowledge that, by virtue of the revolving nature of covered bond asset pools, changes need to be made but, to the extent that these change the fundamental risk parameters of the programme over time – for example the balance between residential and commercial mortgages – it would be helpful to receive more information with regard to cumulative changes in the pool since inception. Further consideration would be needed on what form this ‘audit trail’ of changes could take.

- **Substitute assets**

The disclosure of information about ‘primary’ assets in the pool has clearly advanced significantly as a result of the template. However, some investors have expressed a concern that there is insufficient detailed disclosure with regard to assets in the pool which are of a ‘substitute’ nature.

In addition to these specific requests, we would like to highlight and concur with the view expressed by the ECB in their response to the EC consultation that paragraph 129(7) of the Capital Requirements Directive leaves ‘excessive room for implementation’. Although not a limitation of the template per se, it is possible that the template may be used to address this shortfall in the existing regulation, for example by providing a forum for transparency with regard to the way in which this clause is implemented in each case.

The CBIC would be happy to discuss further with you the points made in this letter. The Secretariat of the CBIC, can be reached at cbic@icmagroup.org should you need further information.

Kind regards,

Nathalie Aubry-Stacey

CBIC – Secretariat