



27th ECBC PLENARY MEETING

18 APRIL 2018 | VANCOUVER, CANADA

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conferences



ECBC Chairman's Note

Niek ALLON

ECBC Chairman

Vancouver – 18 April 2018



Agenda Overview

Luca BERTALOT

Secretary General, EMF-ECBC

Vancouver – 18 April 2018

Why Canada for launching Covered Bonds globally?

Leif Erikson (970-1020)



Jacques Cartier
(1491-1557)



George Vancouver (1757-1798)



Canada: the Terra Nova for Covered Bonds

Leif Erikson (970-1020)



Jacques Cartier
(1491-1557)



George Vancouver (1757-1798)





Keynote Speech

Jeremy Rudin

Superintendent, Office of the Superintendent of Financial Institutions (OSFI)

Vancouver – 18 April 2018

First Panel Discussion: Covered Bonds in Canada

Panel Moderator

*Marc J. MacMullin
McCarthy Tétrault LLP*

Wojtek Niebrzydowski
CIBC

David Power
Royal Bank of Canada

Jacob Pinto,
Bank of Montreal

Jean Blouin,
Desjardins

Stefane Marion,
National Bank

Janet Boyle,
Scotiabank

Greg McDonald,
TD Bank



Canada's housing fundamentals: How do we compare ?

European Covered Bond Council
Vancouver

Stéfane Marion

Chief Economist and Strategist

April 18, 2018



Bubble bath

The end of Canada's housing boom?

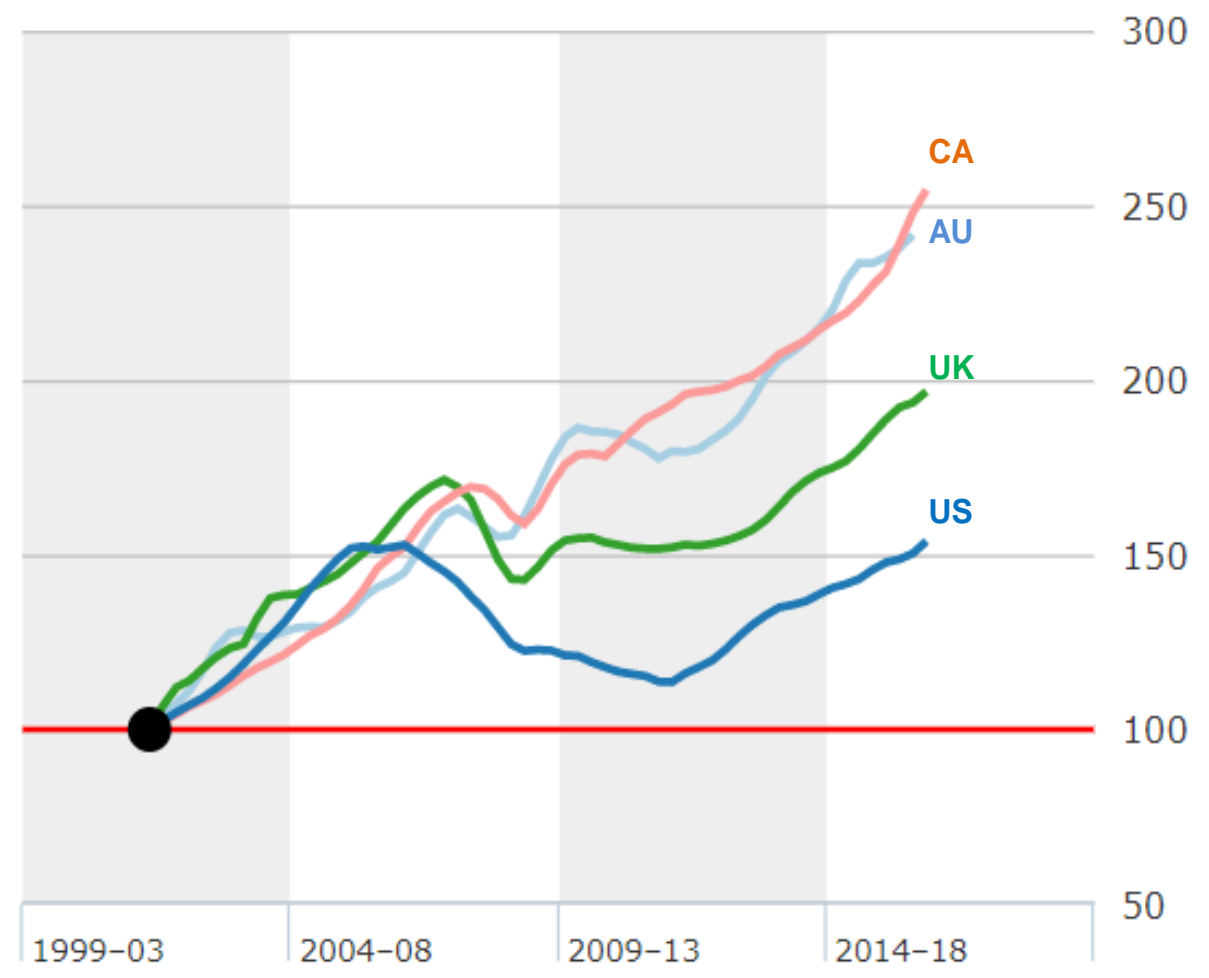
American protectionism is not the only threat to the economy



The Economist house-price index

House-price index	Prices in real terms	Prices against average income	Prices against rents
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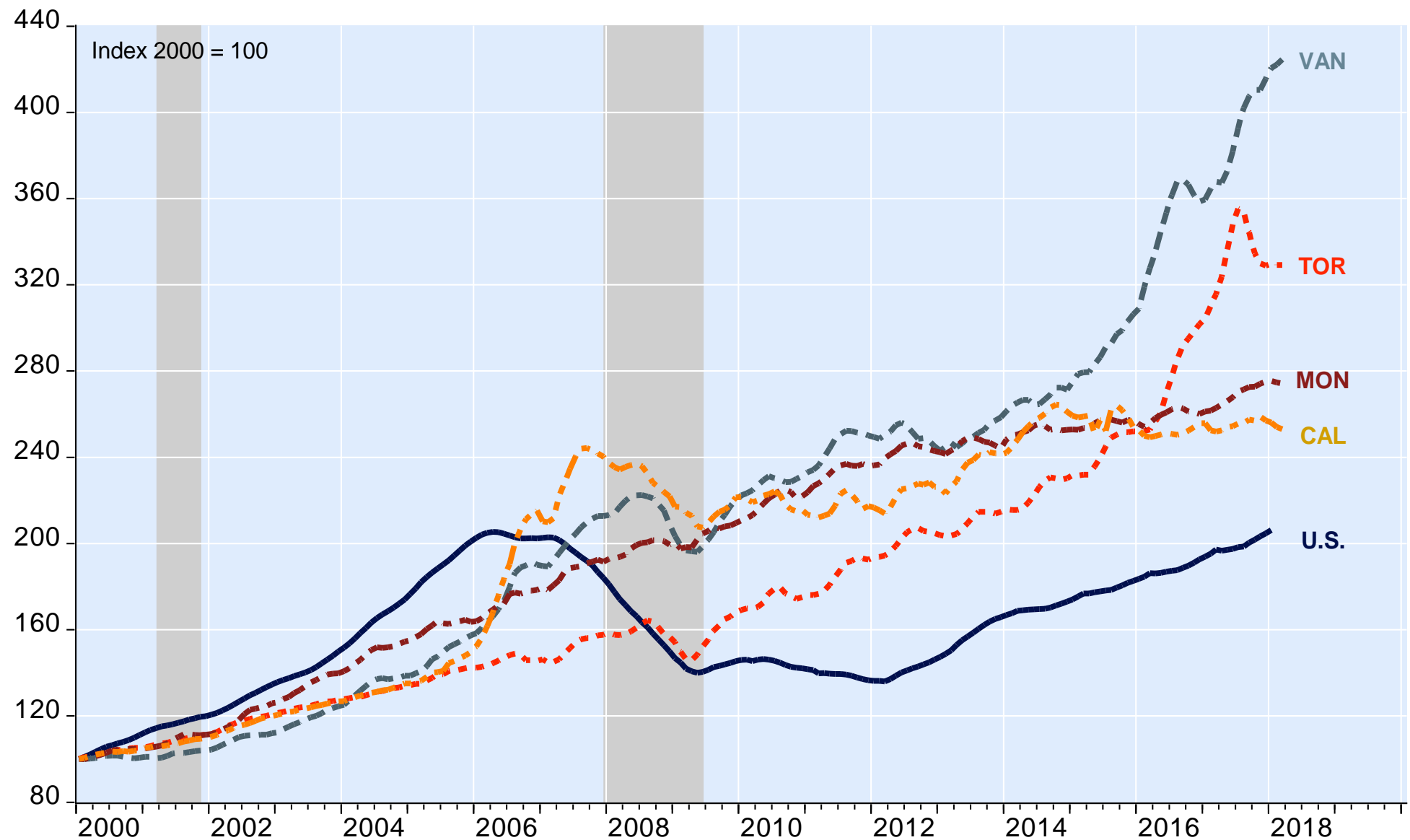
Q2 2002=100



Canada: Irrational exuberance in Canada?

Resale price index

Indices don't tell
the whole story

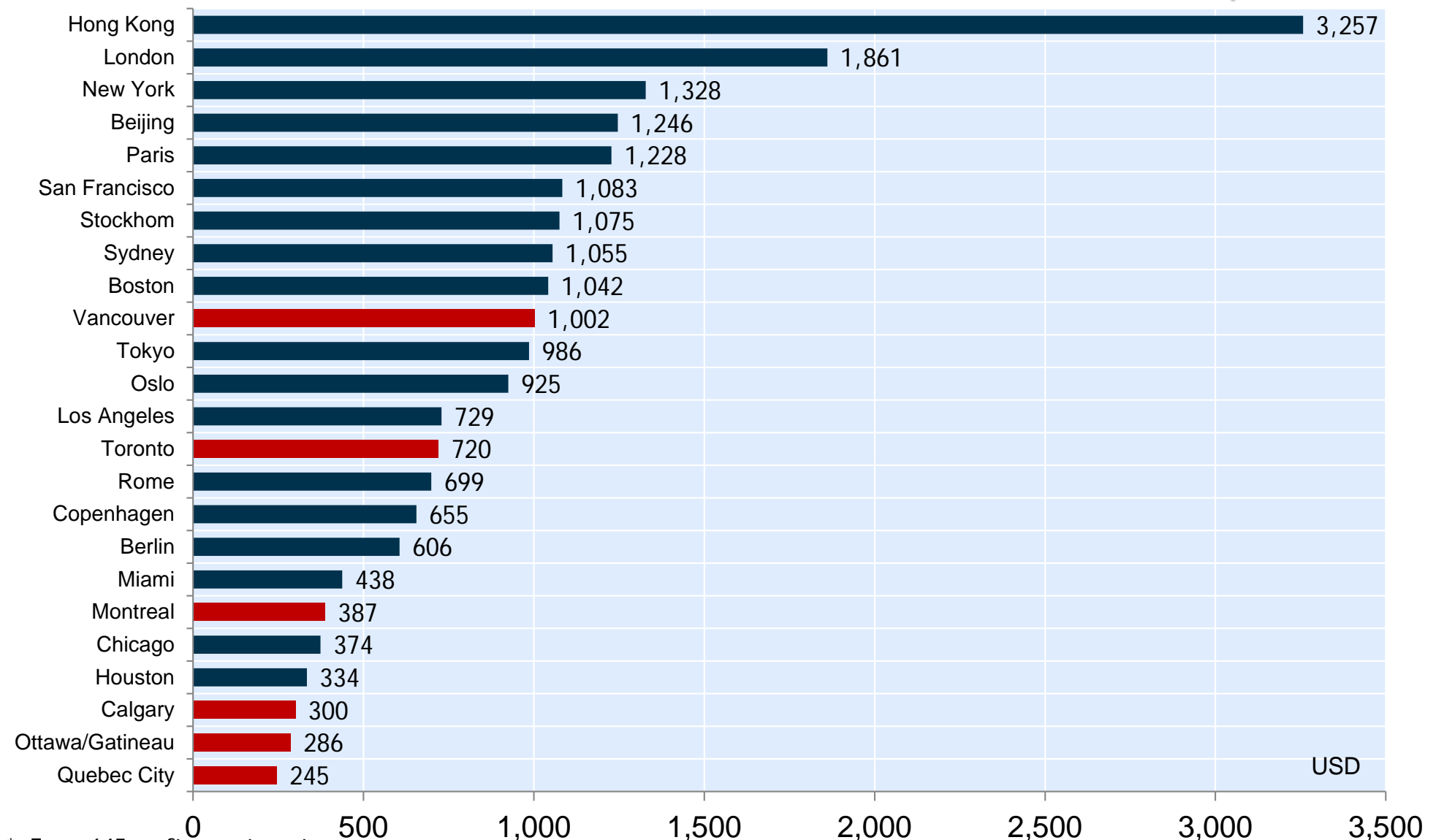


NBF Economics and Strategy (data via Teranet-National Bank and Datastream)

World: Home prices do not seem extreme in Canada

Price per square feet in USD for downtown living* (summer 2017)

Many places are still
more expensive!

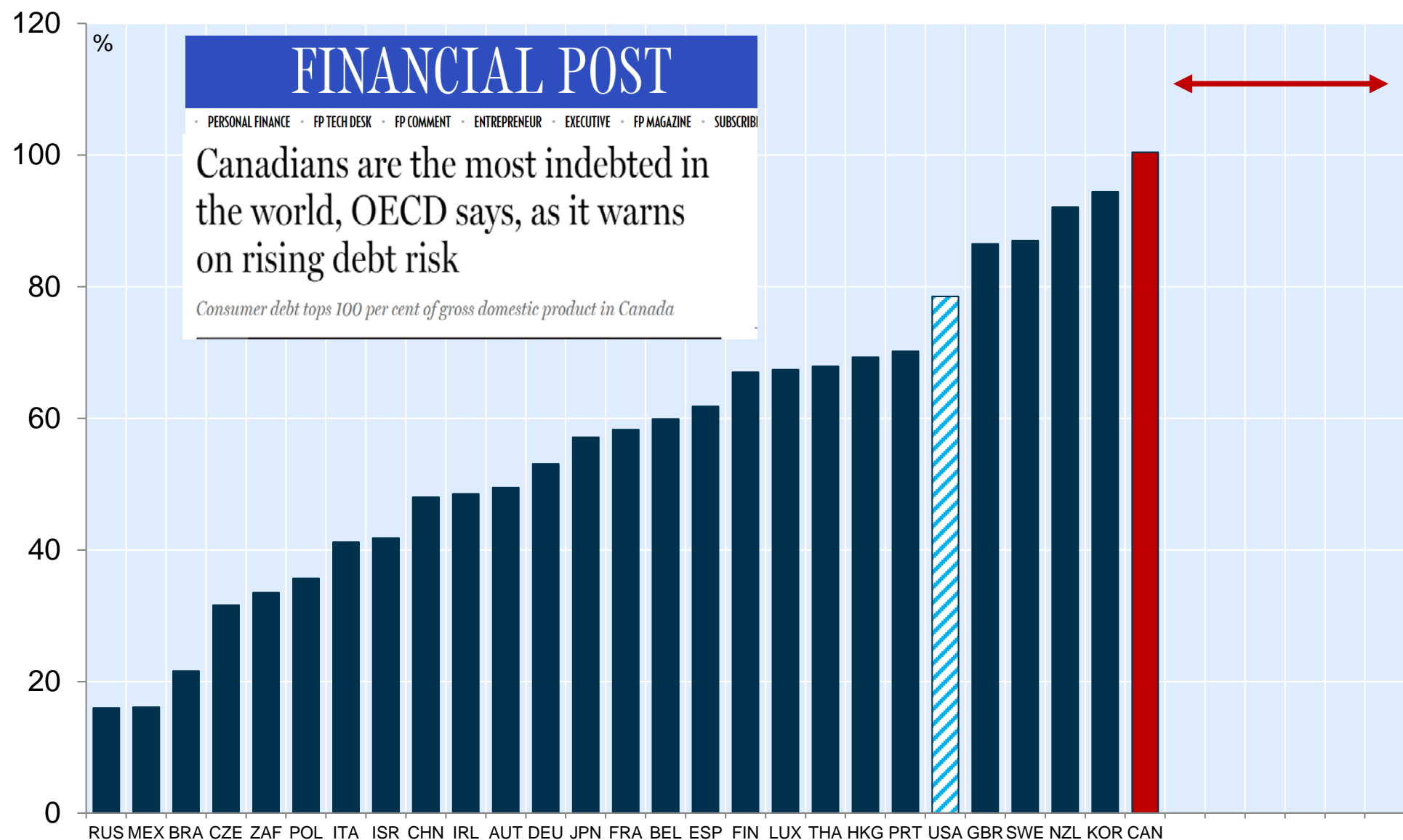


* For a 645 sq.ft. apartment
NBF Economics and Strategy (as of March 1, 2018)

World: Perspective on household leverage

Household debt as a percentage of GDP

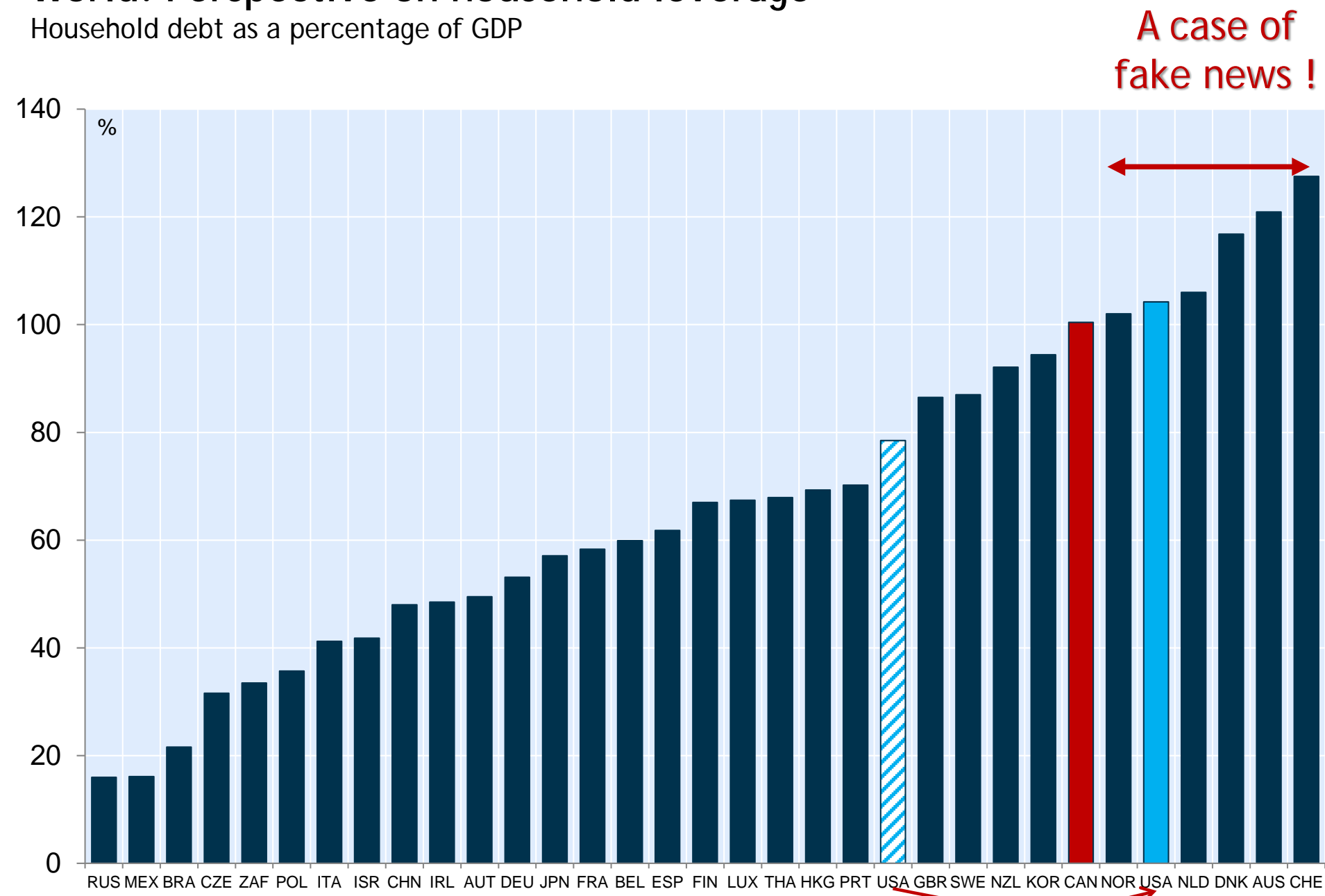
Really ?



NBF Economics and Strategy (data via the Bank for International Settlements)

World: Perspective on household leverage

Household debt as a percentage of GDP



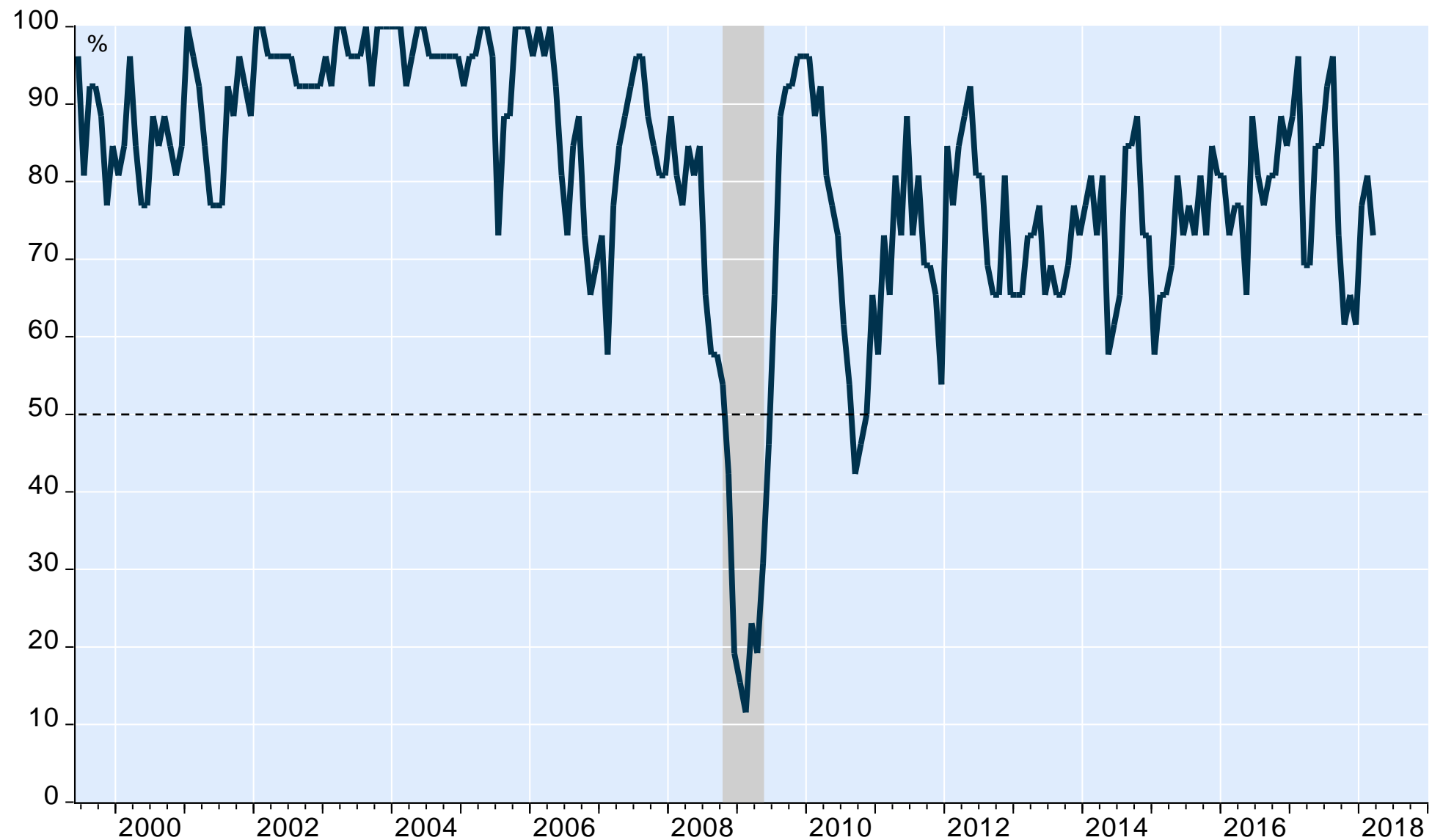
NBF Economics and Strategy (data via the Bank for International Settlements)

U.S. adjusted to Canadian definition

Canada: Home prices remain resilient

Share of regional markets* in Canada where prices have increased in the past 3 months

Why won't
it break?



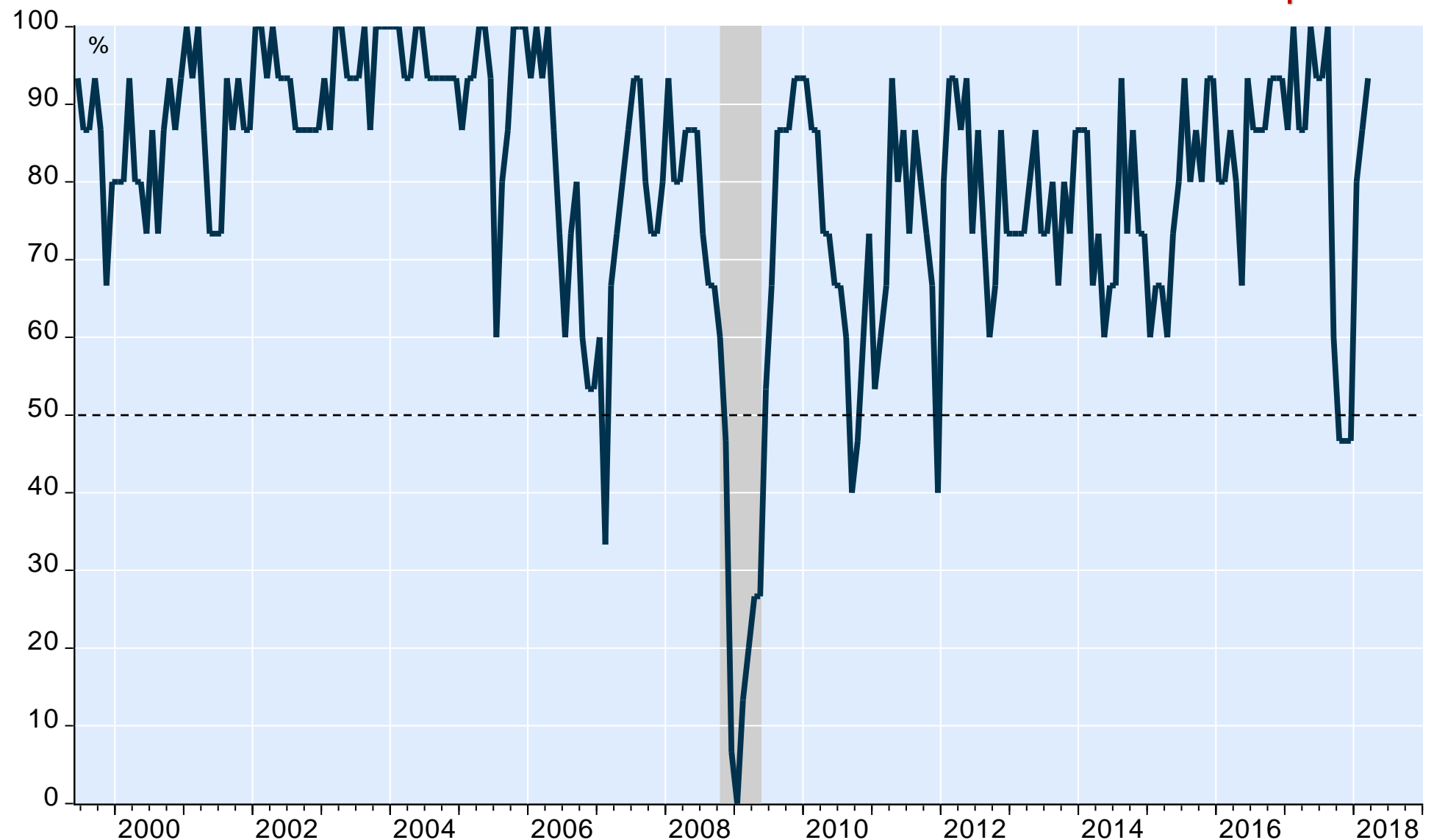
* 26 markets in total

NBF Economics and Strategy (Teranet-National Bank)

Ontario: Home price deflation is abating

Share of regional markets* in Ontario where prices have increased in the past 3 months

Ontario refuses
to capitulate



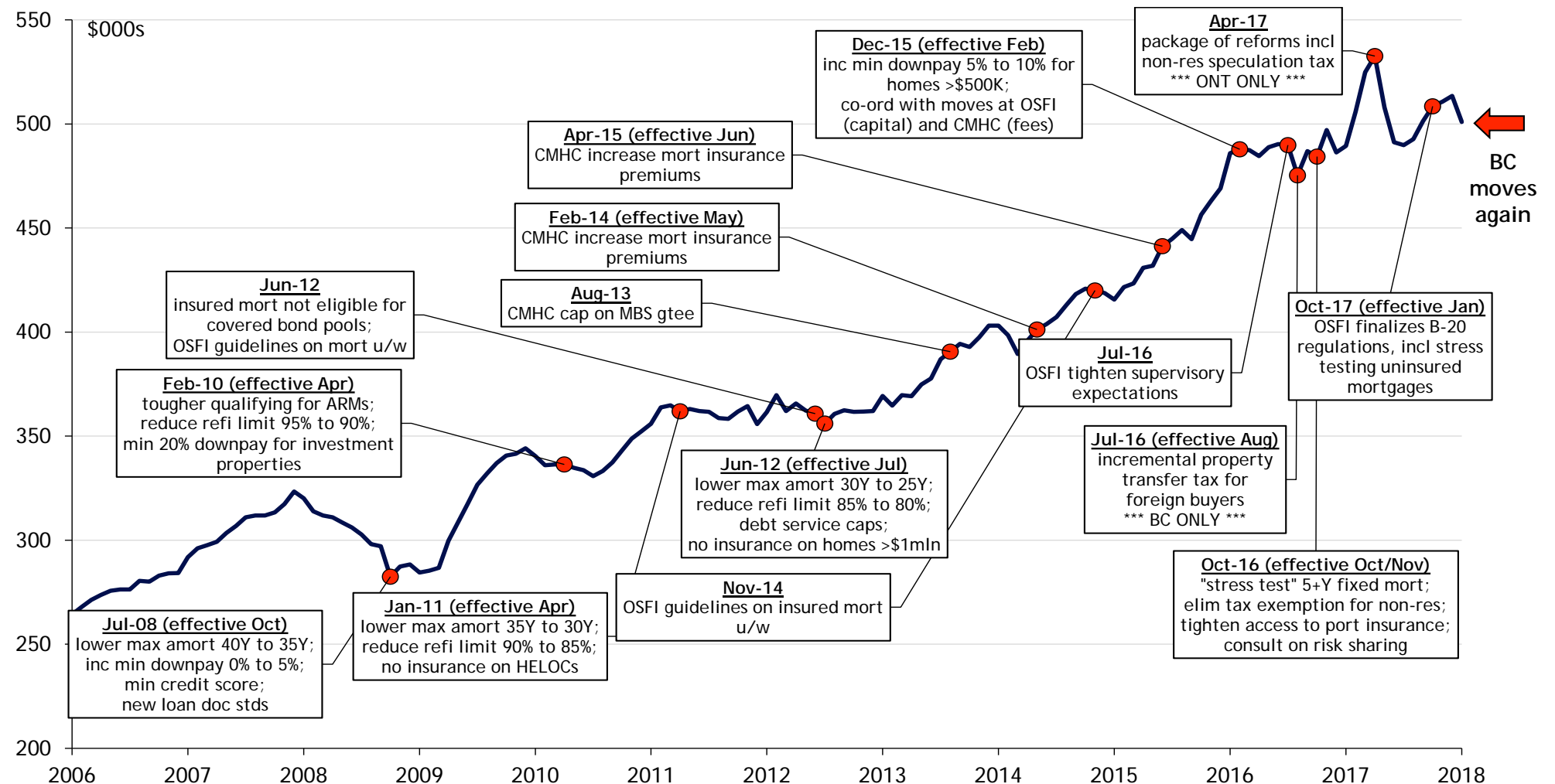
* 15 markets in total

NBF Economics and Strategy (Teranet-National Bank)

A very long list of macroprudential rules aim to contain overheated housing market...

Can this list get any longer?

Canada average resale housing price & timing of housing/mortgage market reforms



Source: NBF, Government of Canada, OSFI, CMHC, CREA

Canada: Household debt determinants according to Statistics Canada

Tobit model description from *Household debt in Canada (2012)*

After controlling for income, here are the key determinants of household leverage identified by statistics Canada

$$\text{Total household debt} = \beta_1 \text{Income} + \beta_2 \text{Employed} + \beta_3 \text{Tenure} + \beta_4 \text{Immigrant Status} + \beta_5 \text{Education}$$

Key findings:

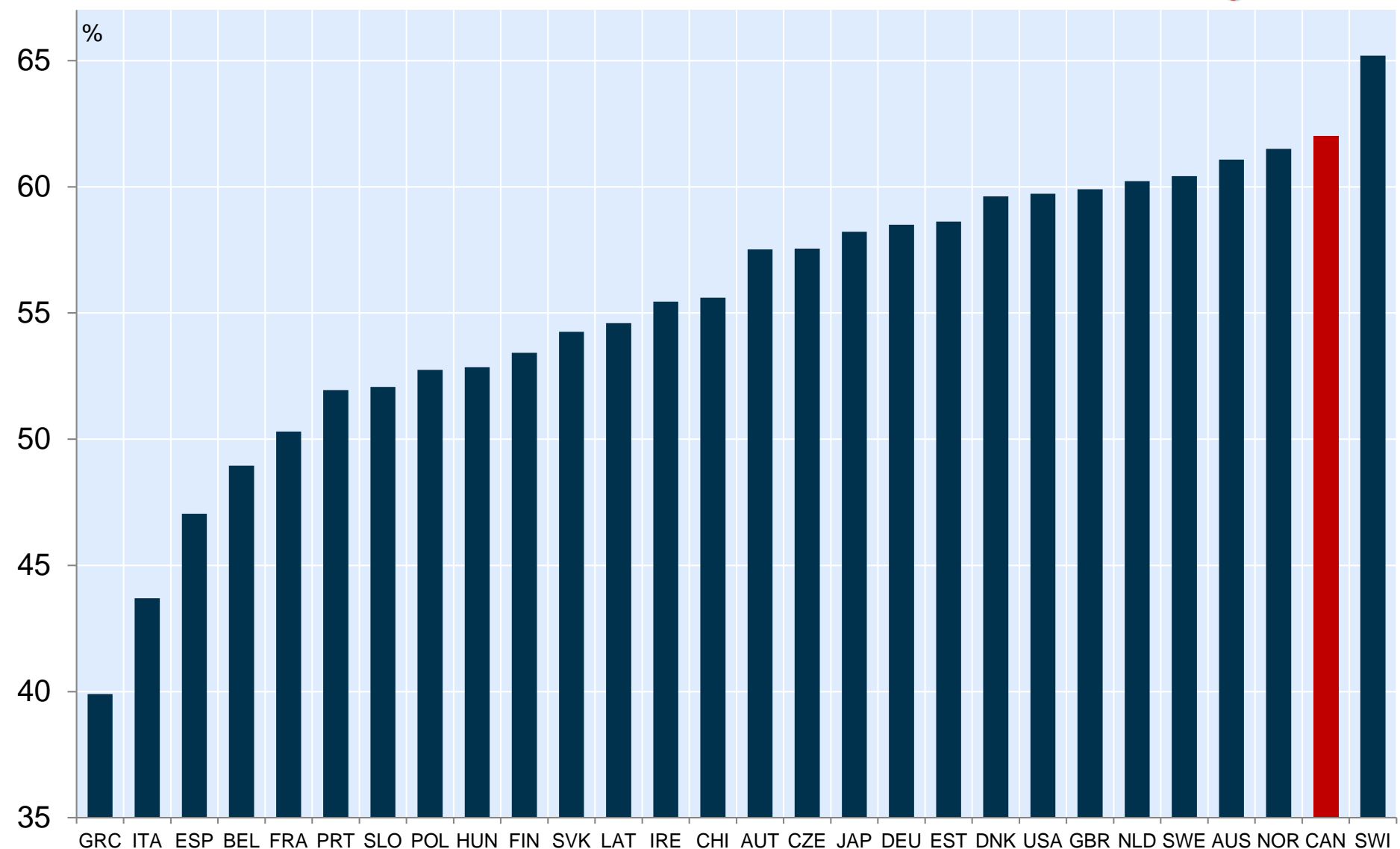
- Employed: An employee has \$93K more debt than a retiree and +\$37K more debt than others.
The age profile of employees is also important (+\$52K more debt for younger workers vs. others).
- Home Tenure: A homeowner has \$100K more debt than a renter
- Immigrants: Foreign born population has more leverage than natives (+\$34K)
- Education: Postsecondary education = +\$26K more debt than less educated

Statistics Canada ("Household Debt in Canada", March 2012)

World: Perspective on employment rate

Workers as a percentage of population 15+

Second
highest !

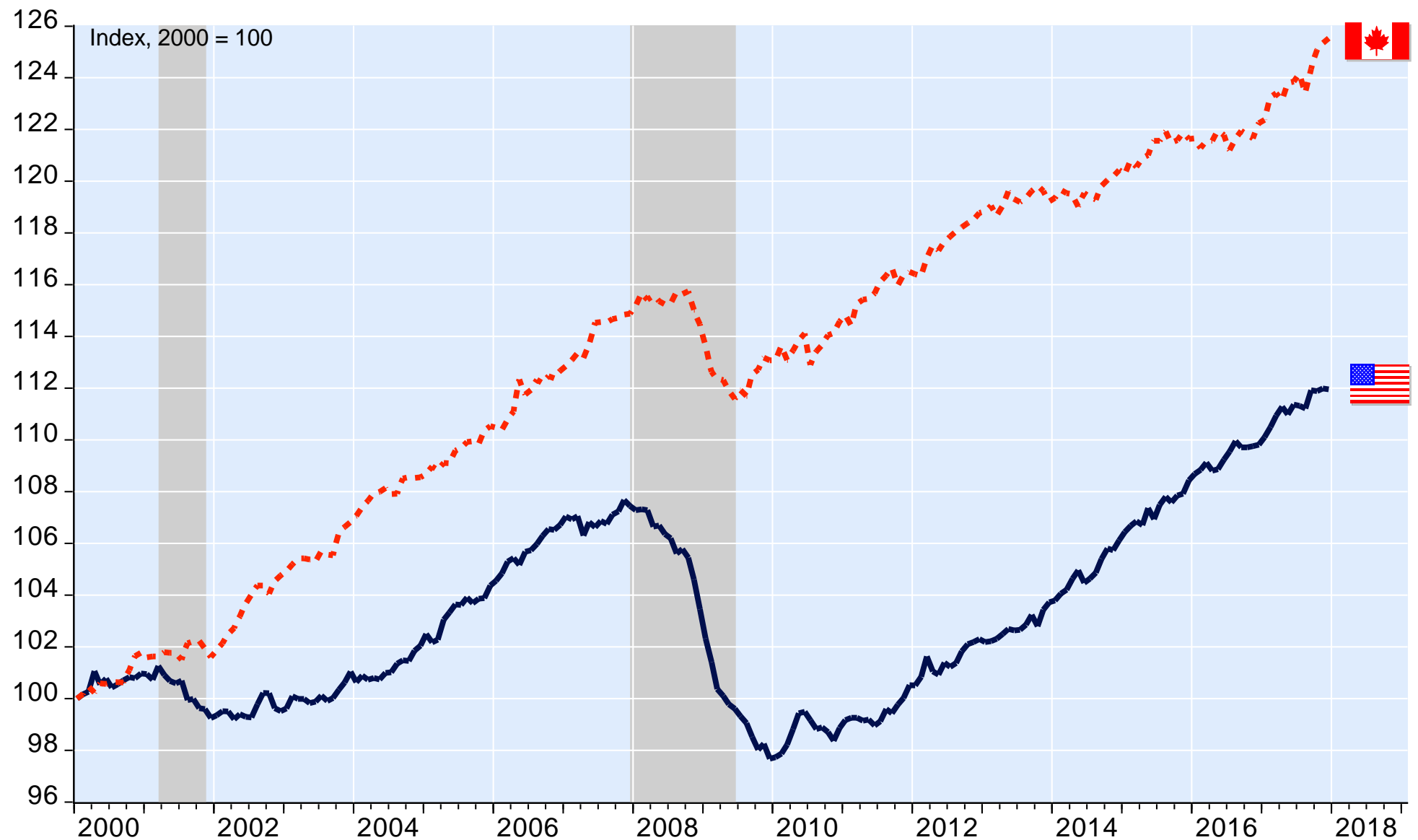


NBF Economics and Strategy (data via OECD, Statistics Canada)

Perspective on key driver of labour income

Full-time employment: Canada vs. the U.S.

We continue
to do well

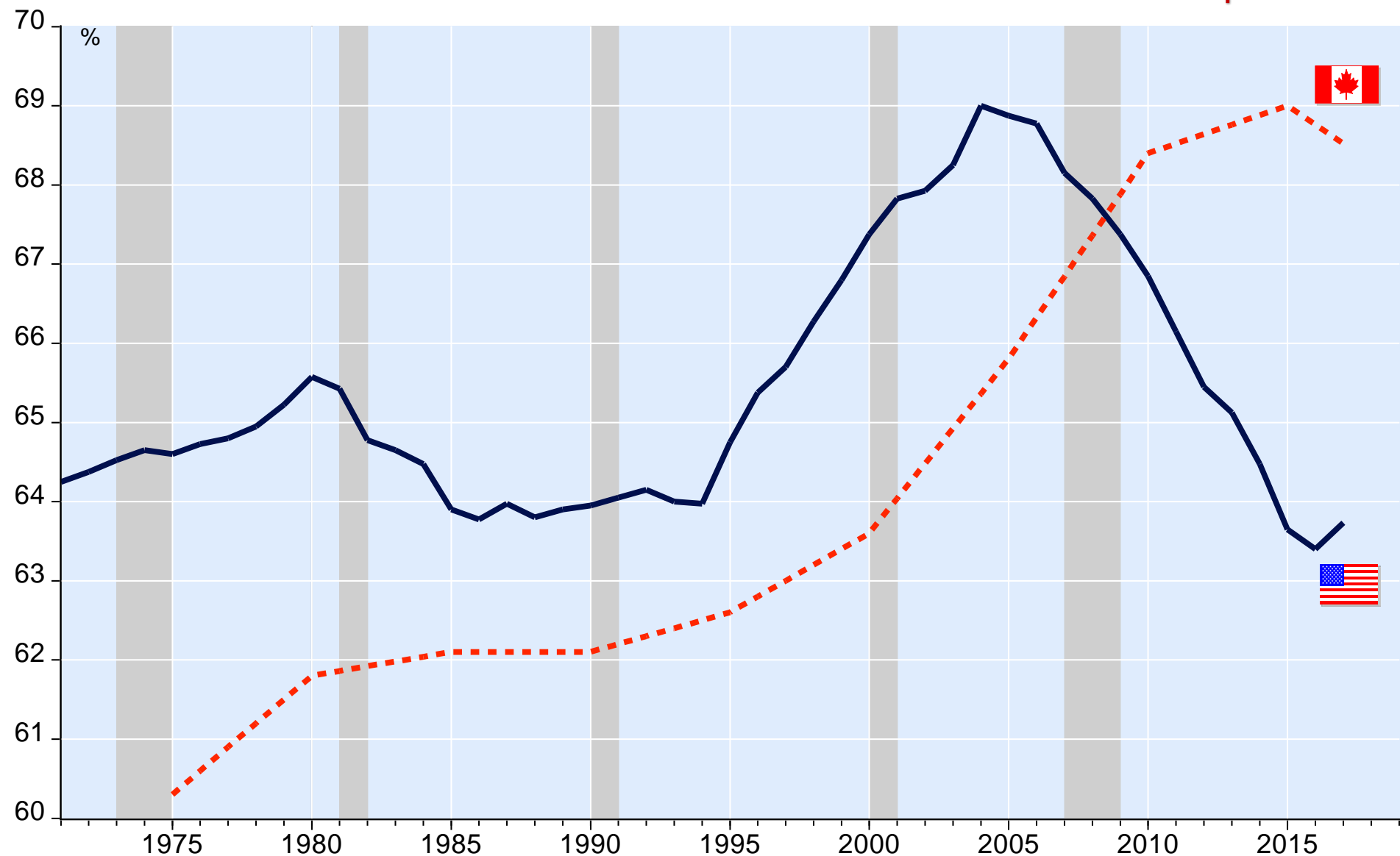


NBF Economics and Strategy (data via Datastream)

Canada: Perspective on homeownership rate

Homeownership rate in Canada and United States

Should we
panic?

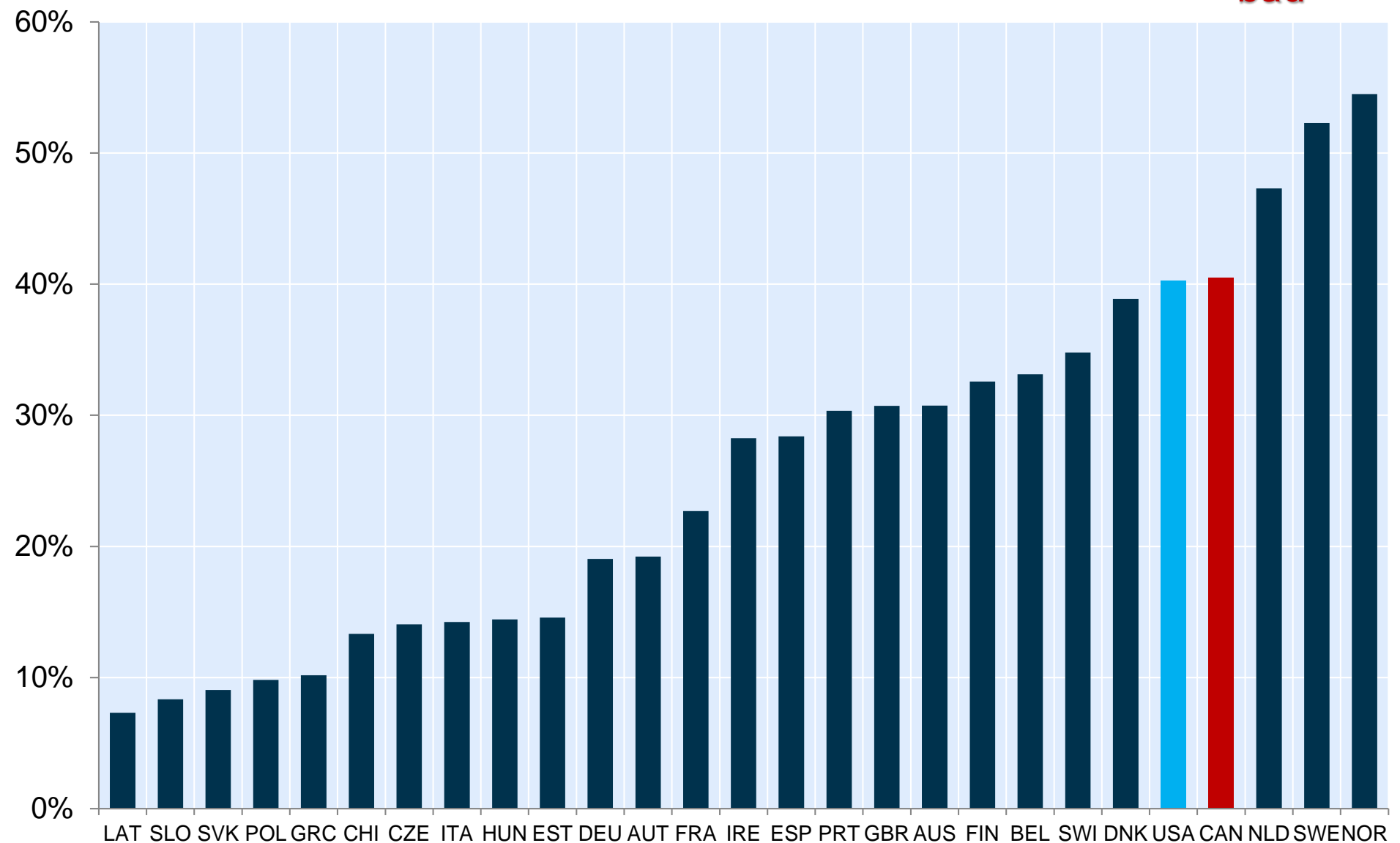


NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

World: Perspective on mortgage holders

Homeowners having a mortgage as a percentage of total households (2014 or latest)

Not so
bad

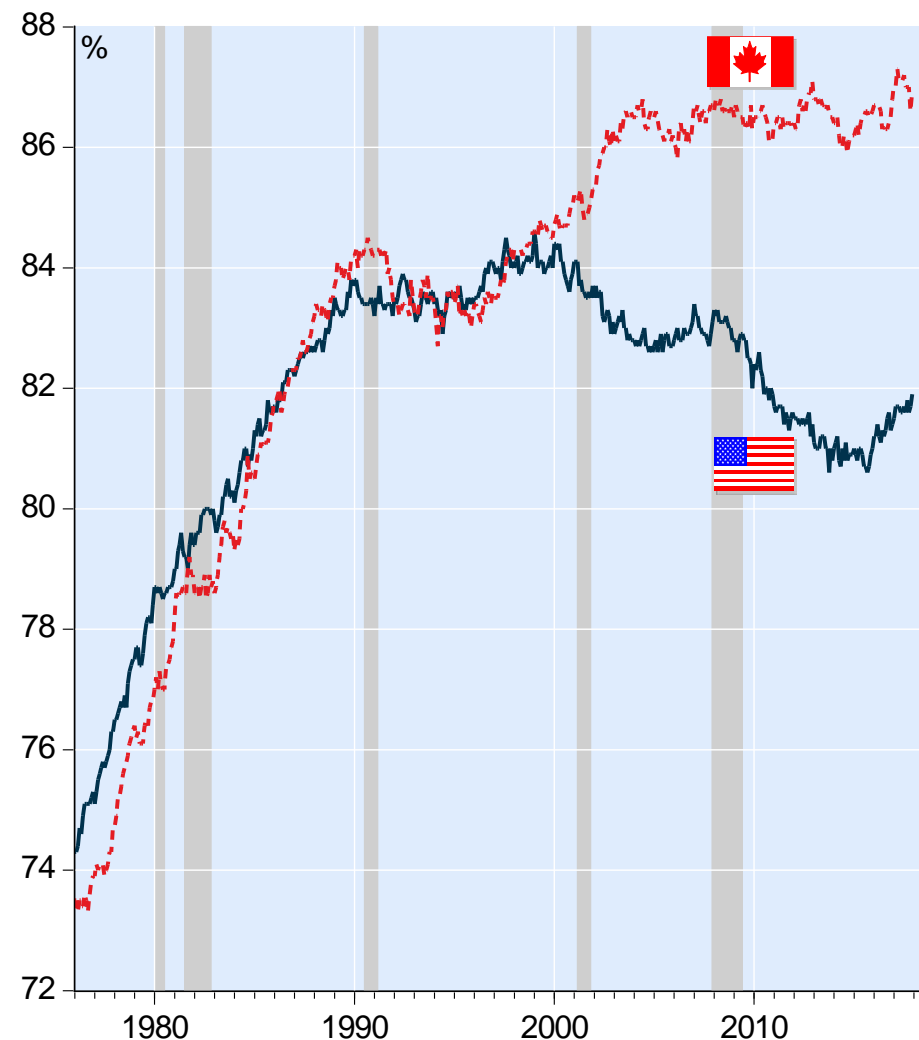


NBF Economics and Strategy (data via OECD)

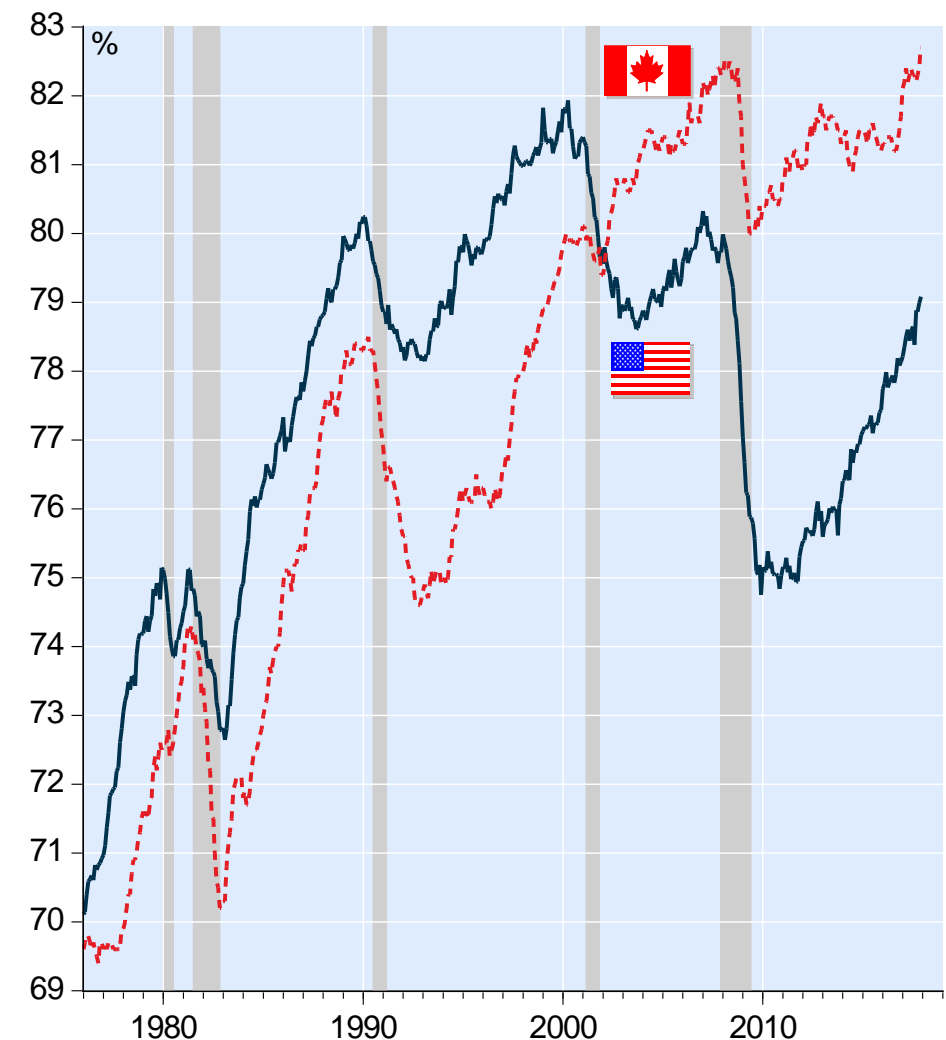
Canada: The prime-age workforce at full employment

That's a
HUGE deal !

Labour force participation rate for
people aged 25-54



Employment/population ratio
for people aged 25-54

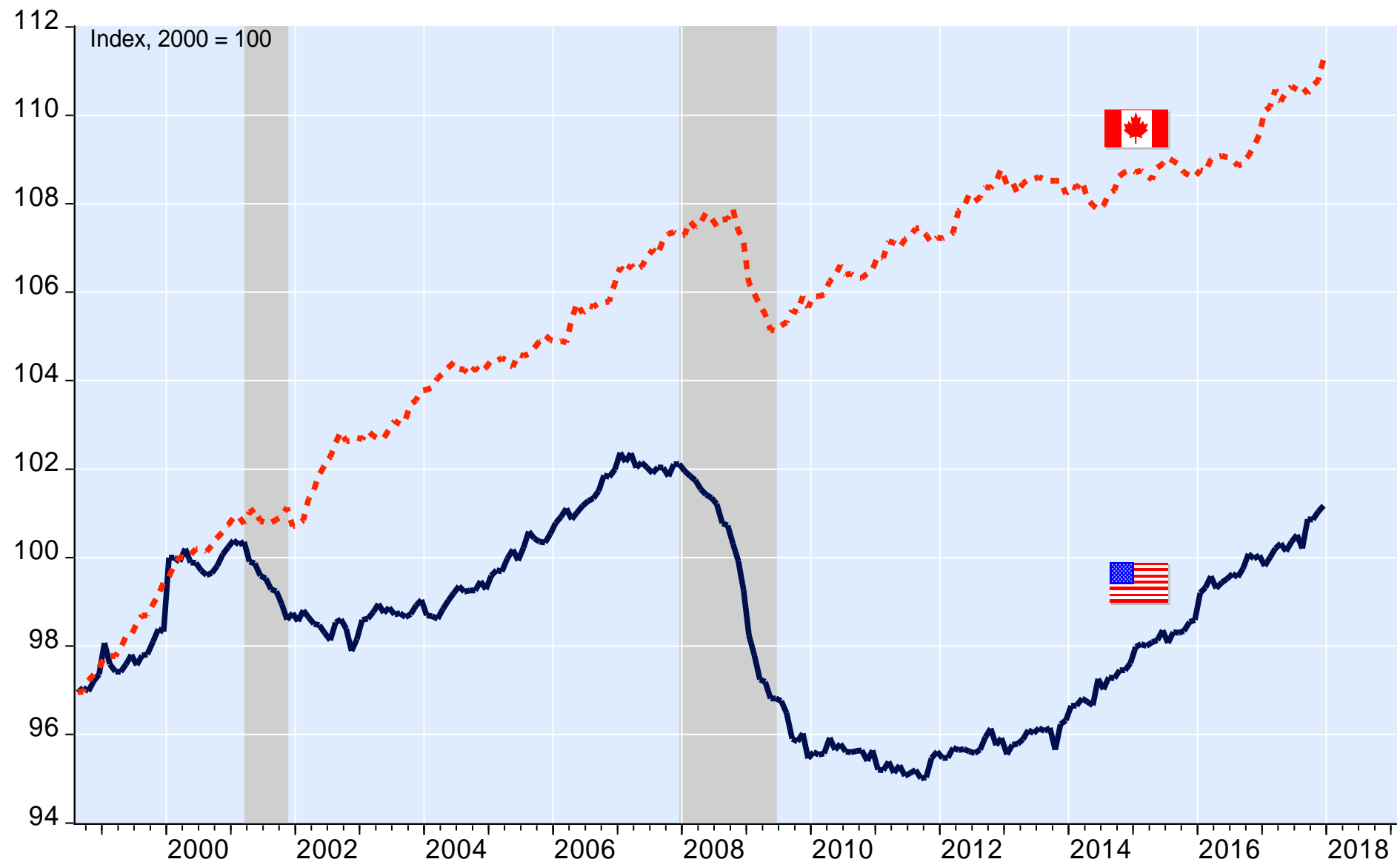


NBF Economics and Strategy (data via Statistics Canada and Datastream)

Perspective on the prime-aged workforce

Employment for people aged 25-54: Canada vs. the U.S.

That's very
impressive

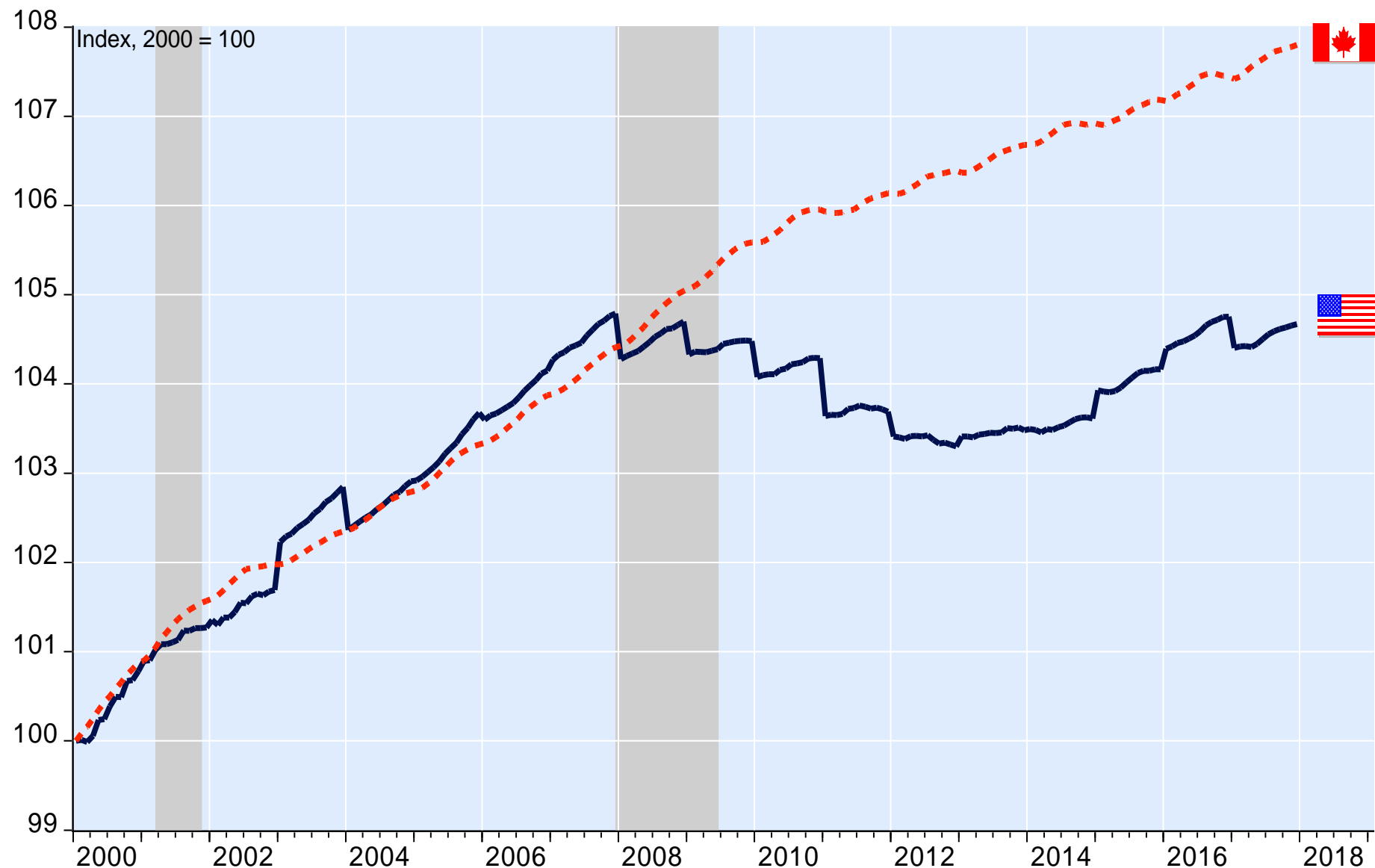


NBF Economics and Strategy (data via Statistics Canada and BLS via Datastream)

Prime-age population growing in Canada, stalling in the U.S.

Population aged 25-54: Canada vs. the U.S.

Did you
know this ?

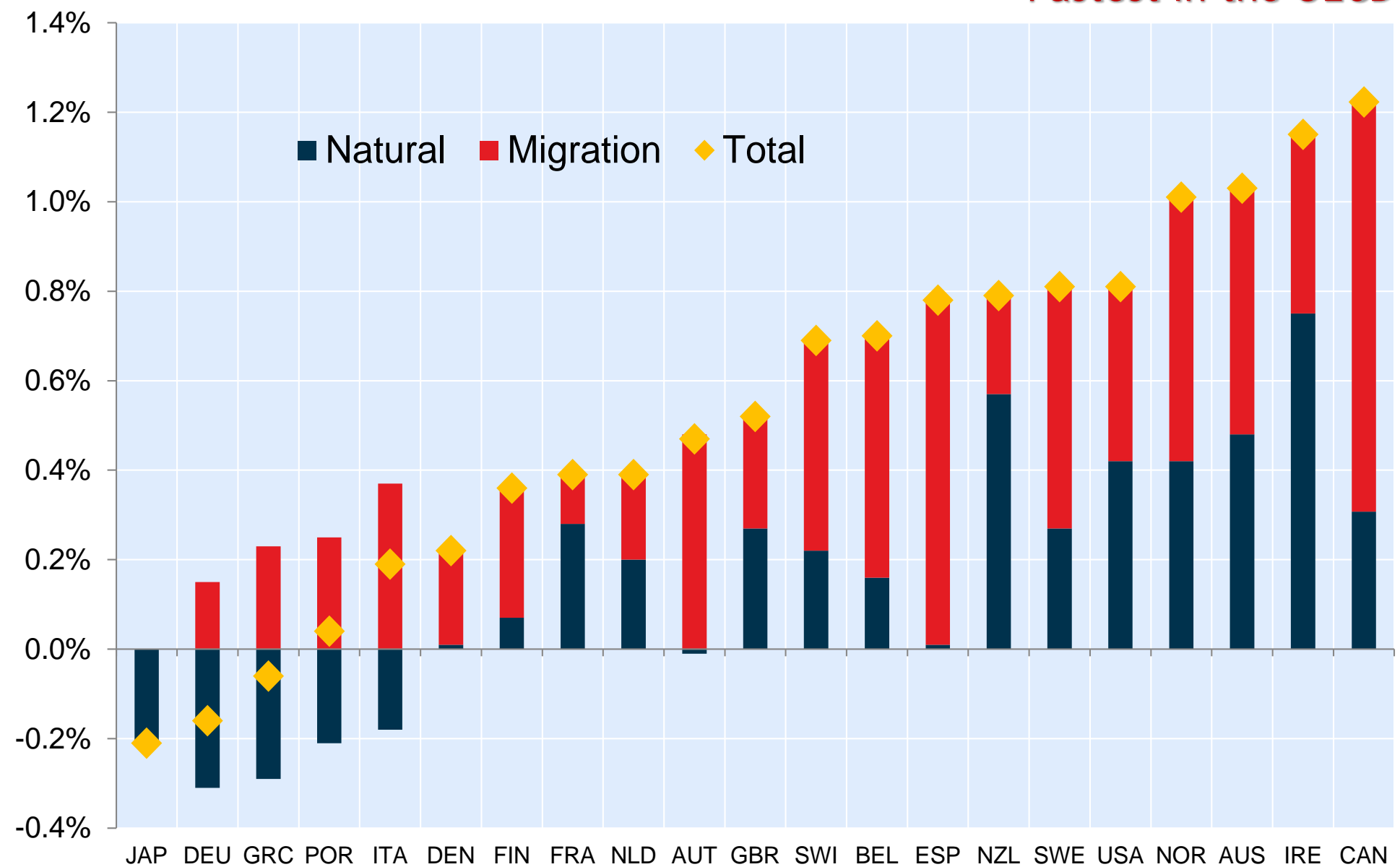


NBF Economics and Strategy (data via Statistics Canada and BLS via Datastream)

Canada: Leading OECD countries in terms of population growth

2017 population growth, natural vs. caused by migration

Fastest in the OECD

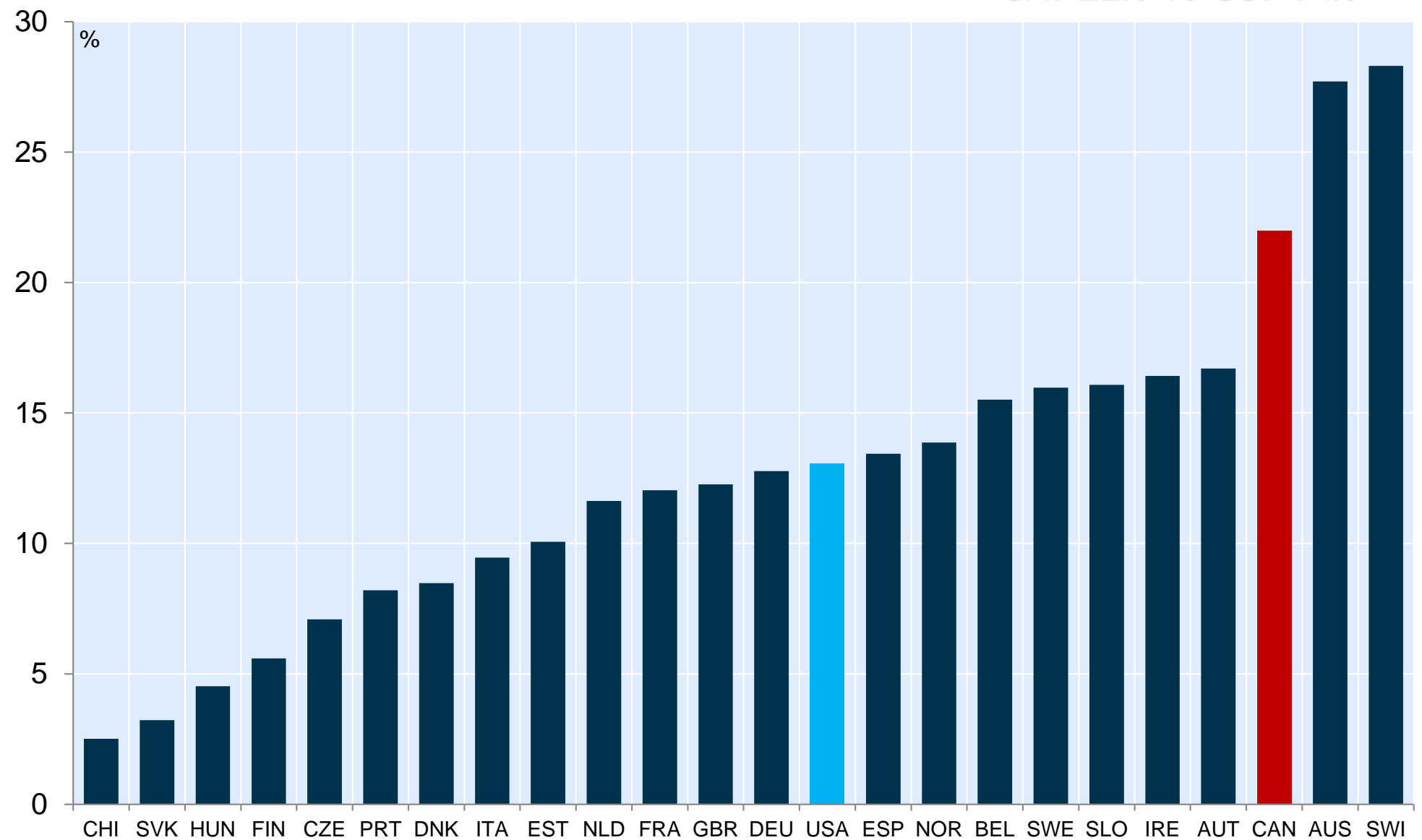


NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

World: Perspective on foreign-born population

Share of population born abroad

CA: 22% vs US: 14%

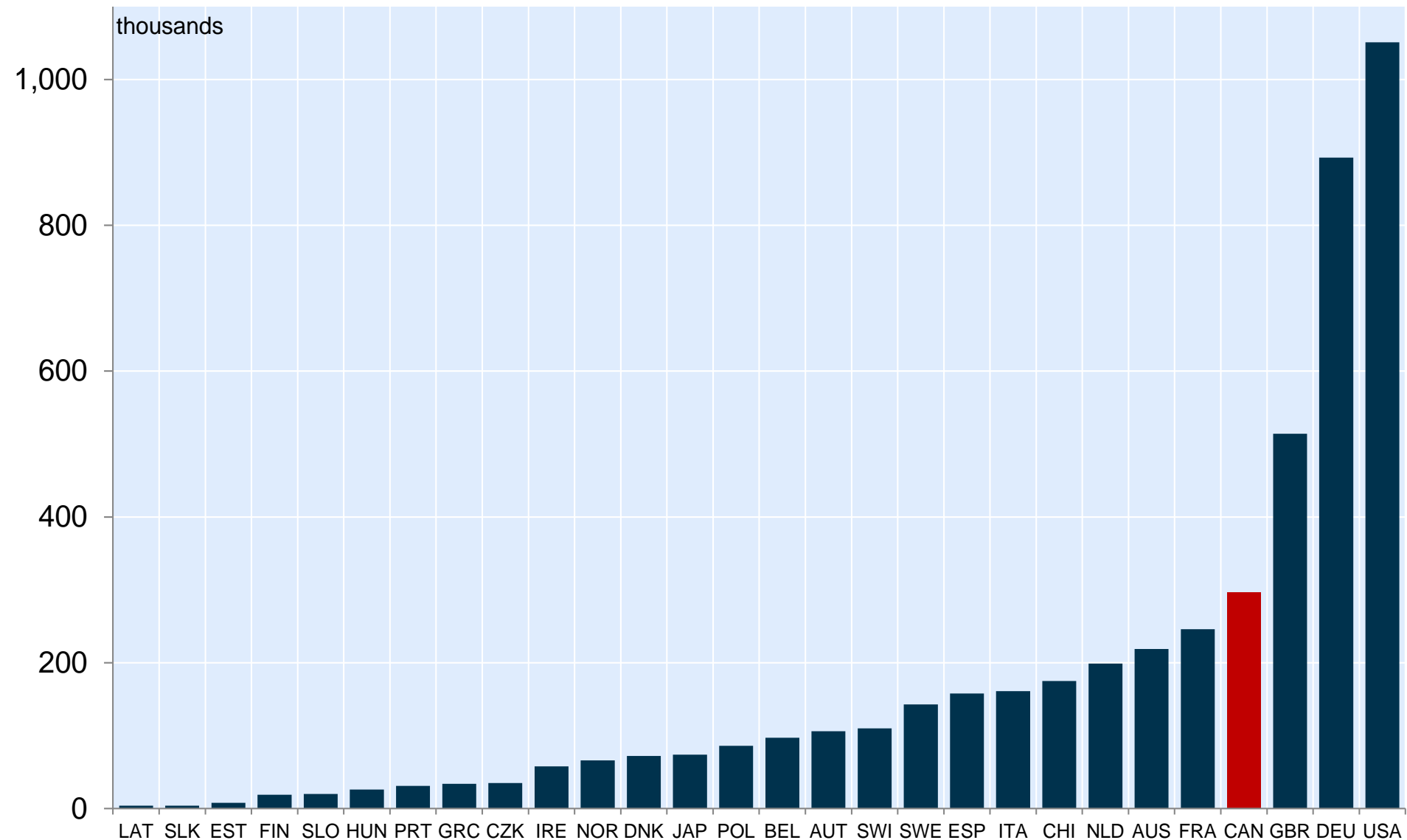


NBF Economics and Strategy (data via OECD)

World: Inflows of permanent immigrants

Permanent immigration in OECD countries in 2016 (2015 if not yet available)

300K/year is a lot!

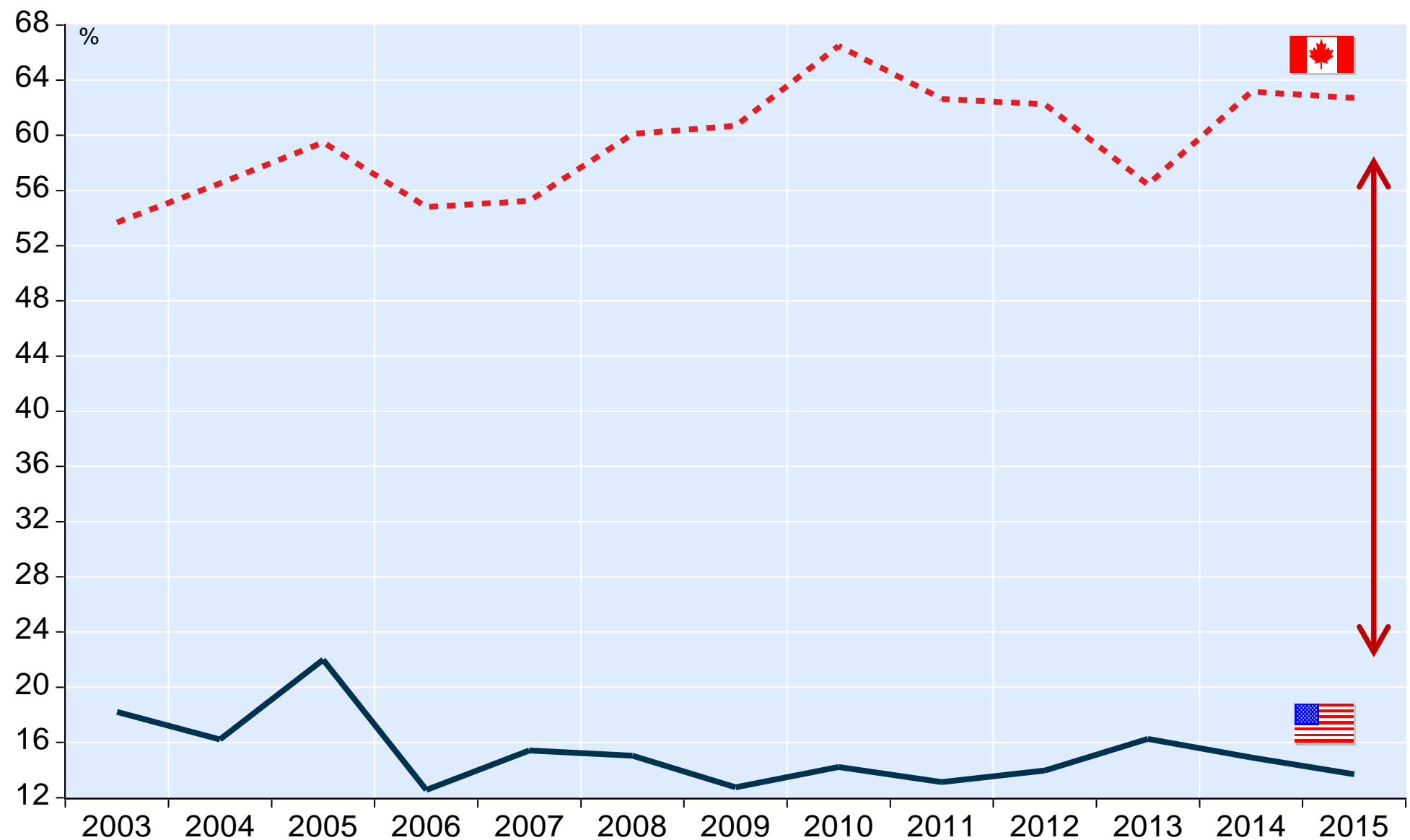


NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

Canada: Immigration policy is key for labour markets

"Economic category" admissions to permanent residence as a share of total immigration

Massive
divergence

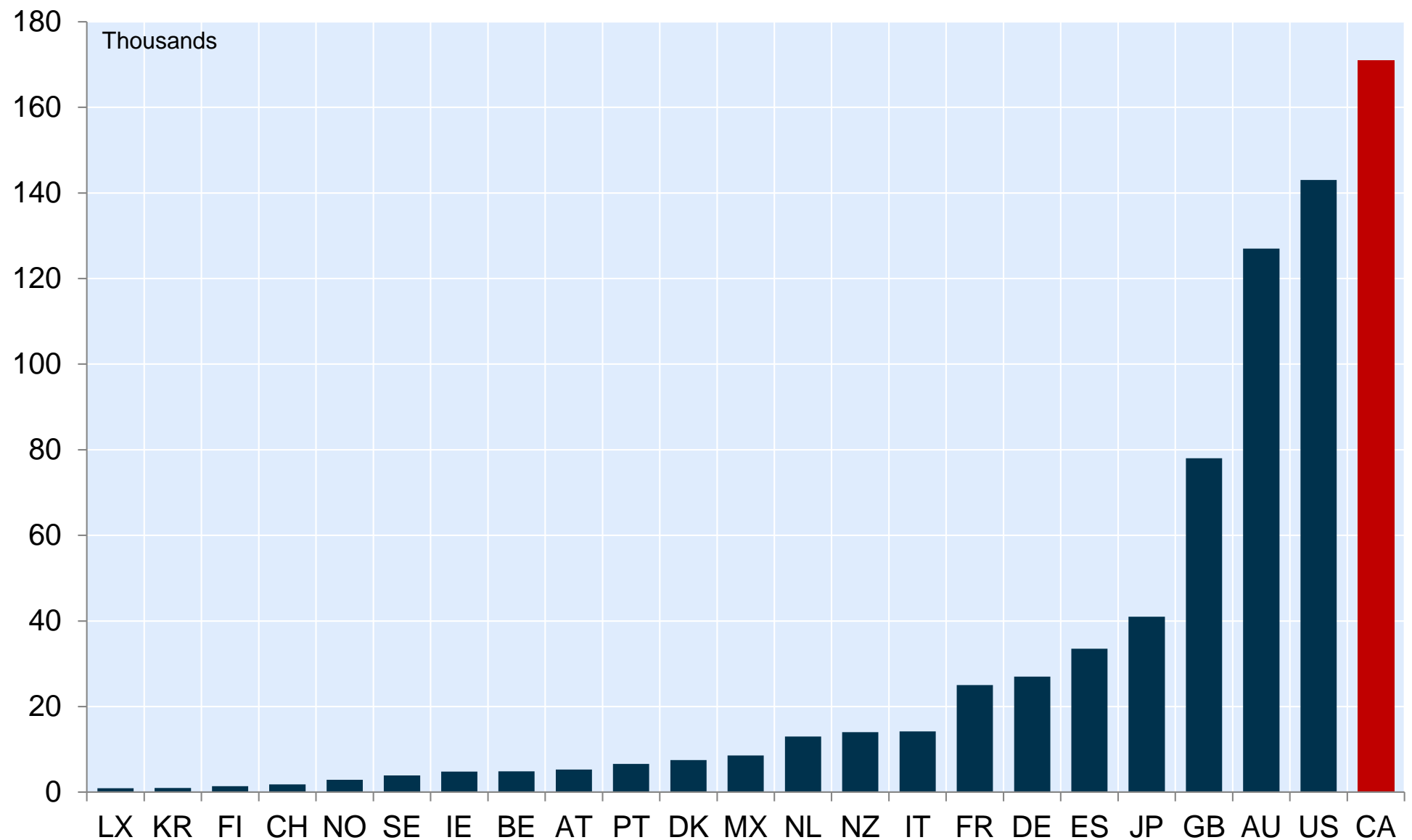


NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

Canada: Highest inflow of workforce-ready immigrants in the OECD

Annual “economic category” admissions to permanent residence (2015)

Highest in the world !

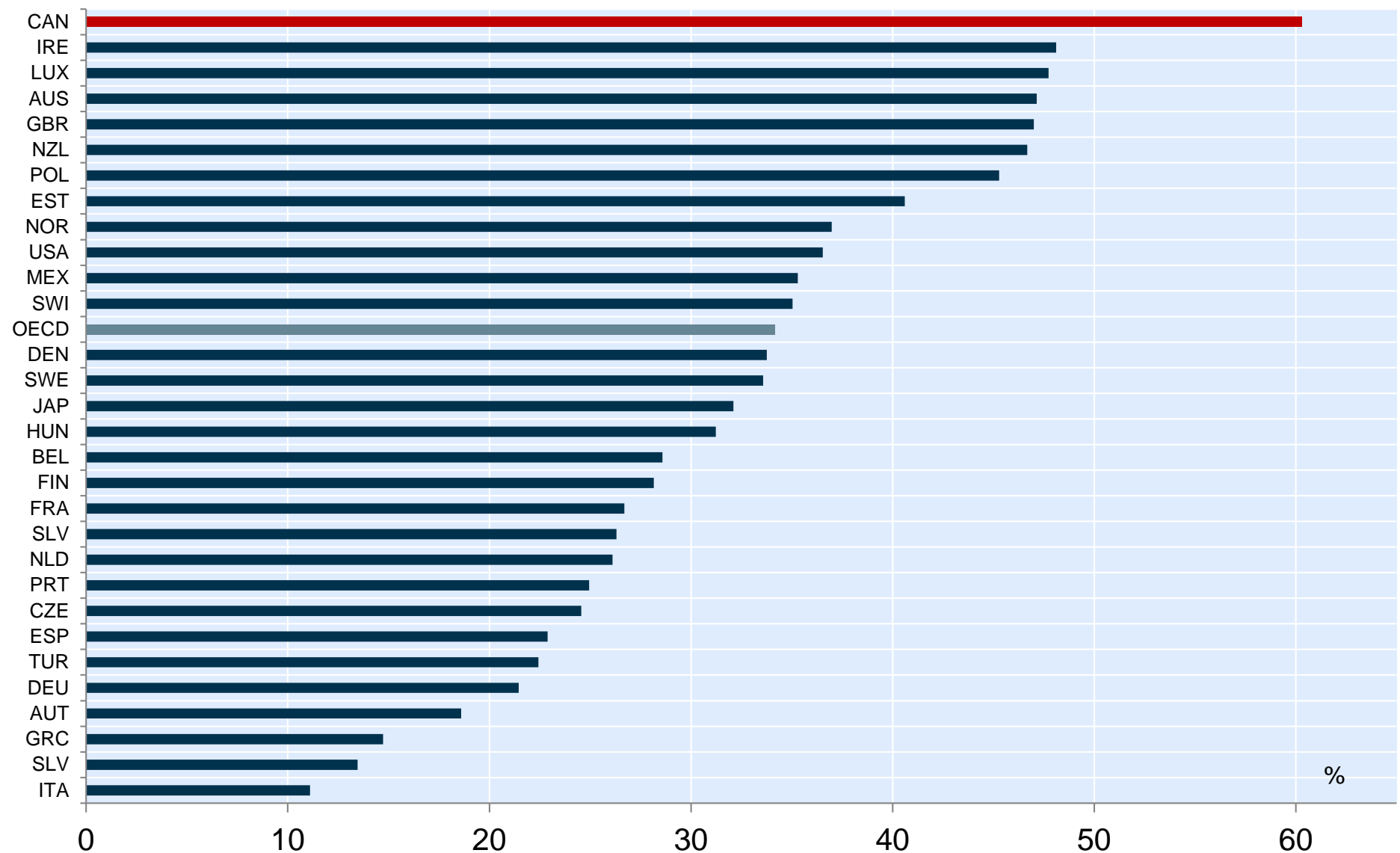


NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

Canada: foreign-born population is highly educated

Percentage of foreign-born 15-64 with post-secondary education

Impressive

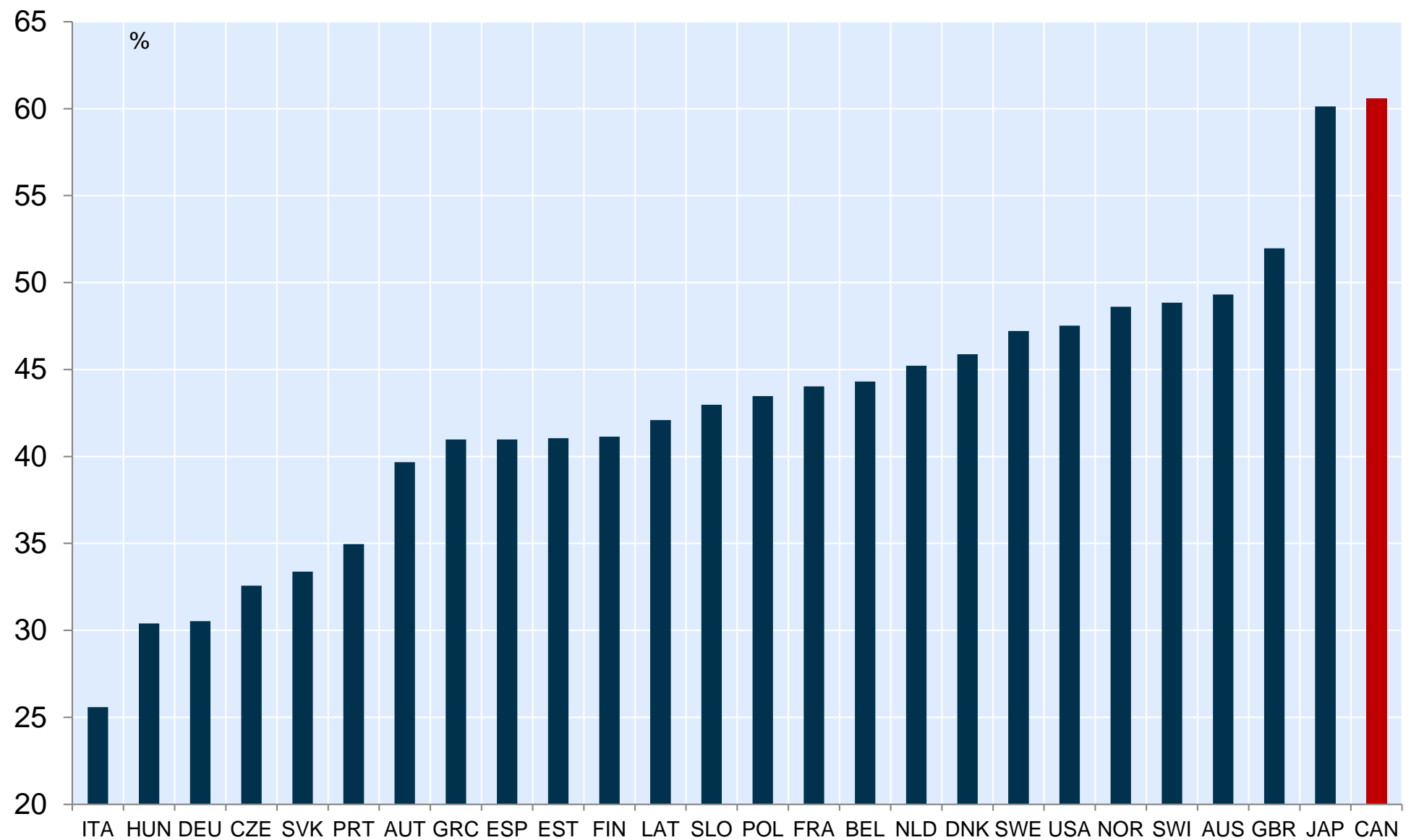


NBF Economics and Strategy (data via <http://www.oecd.org/els/mig/Indicators-of-Immigrant-Integration-2015.pdf>)

World: Perspective on education

Share of population aged 25-34 with post-secondary education (2016)

Highest in the world !

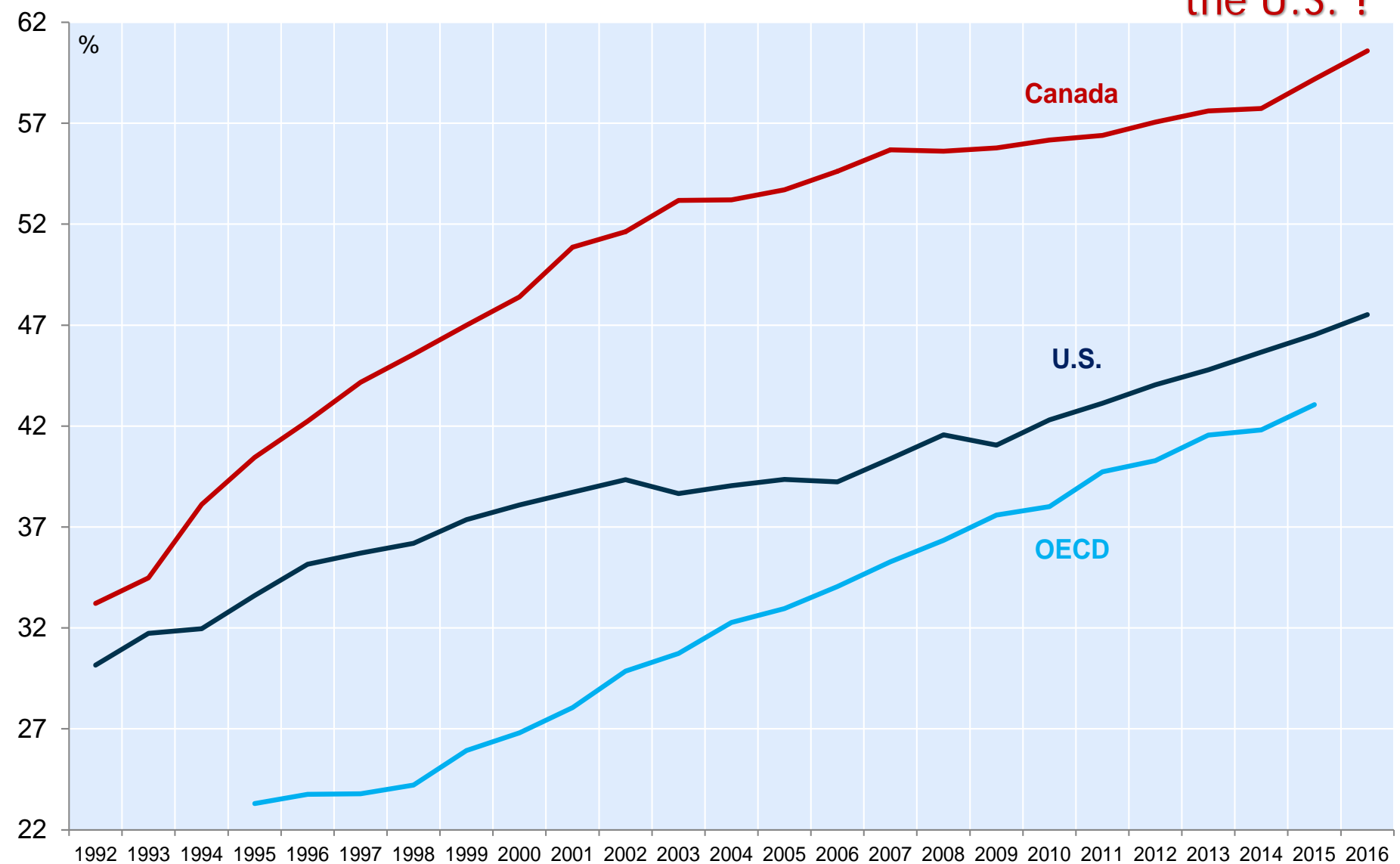


NBF Economics and Strategy (data via OECD)

Canada: An educated workforce can support higher debt

Share of population aged 25-34 with tertiary education

13 pp gap with
the U.S. !

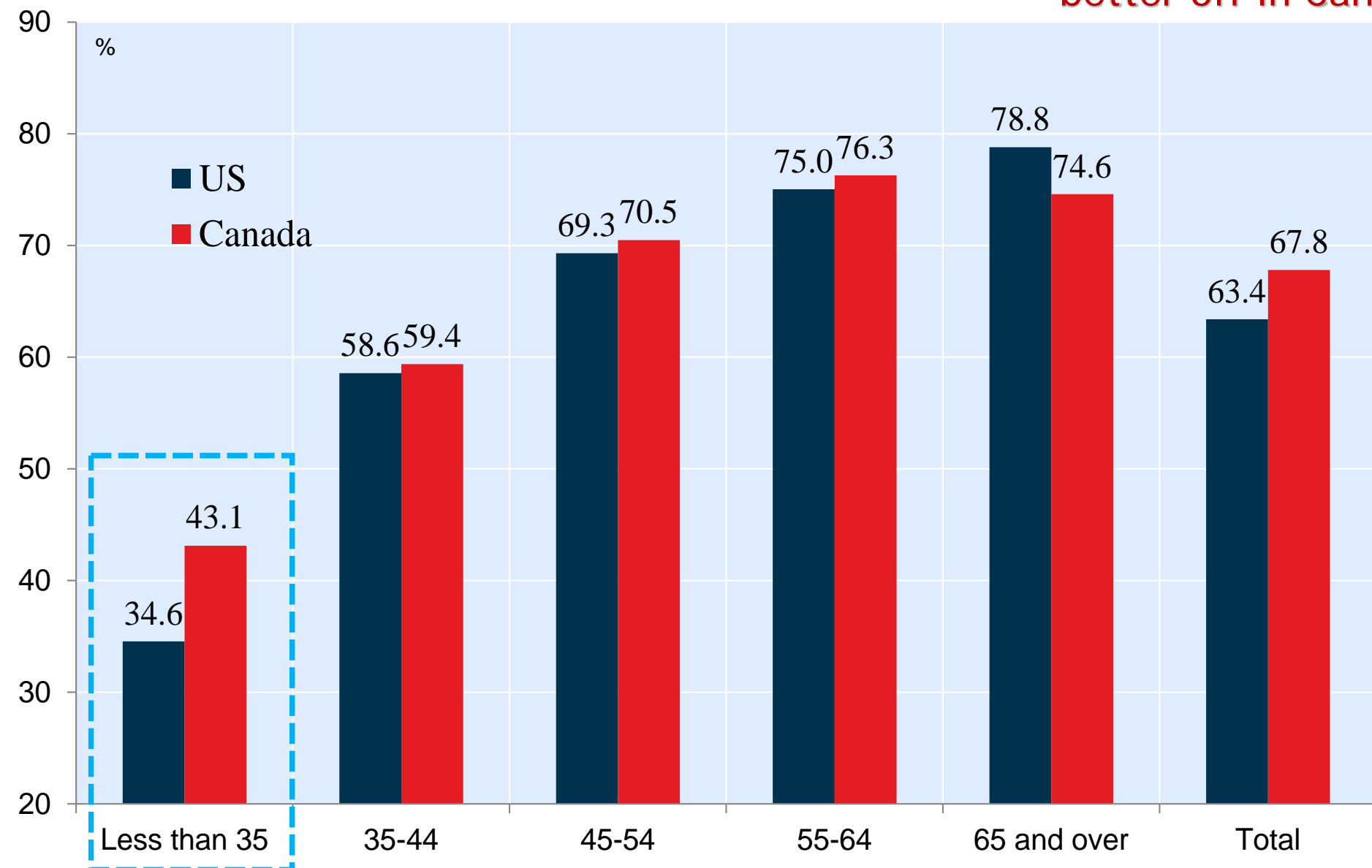


NBF Economics and Strategy (OECD data via <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>)

Canada: Perspective on homeownership rate

Homeownership rate in Canada and United States (2016)

The below 35 are
better off in Canada

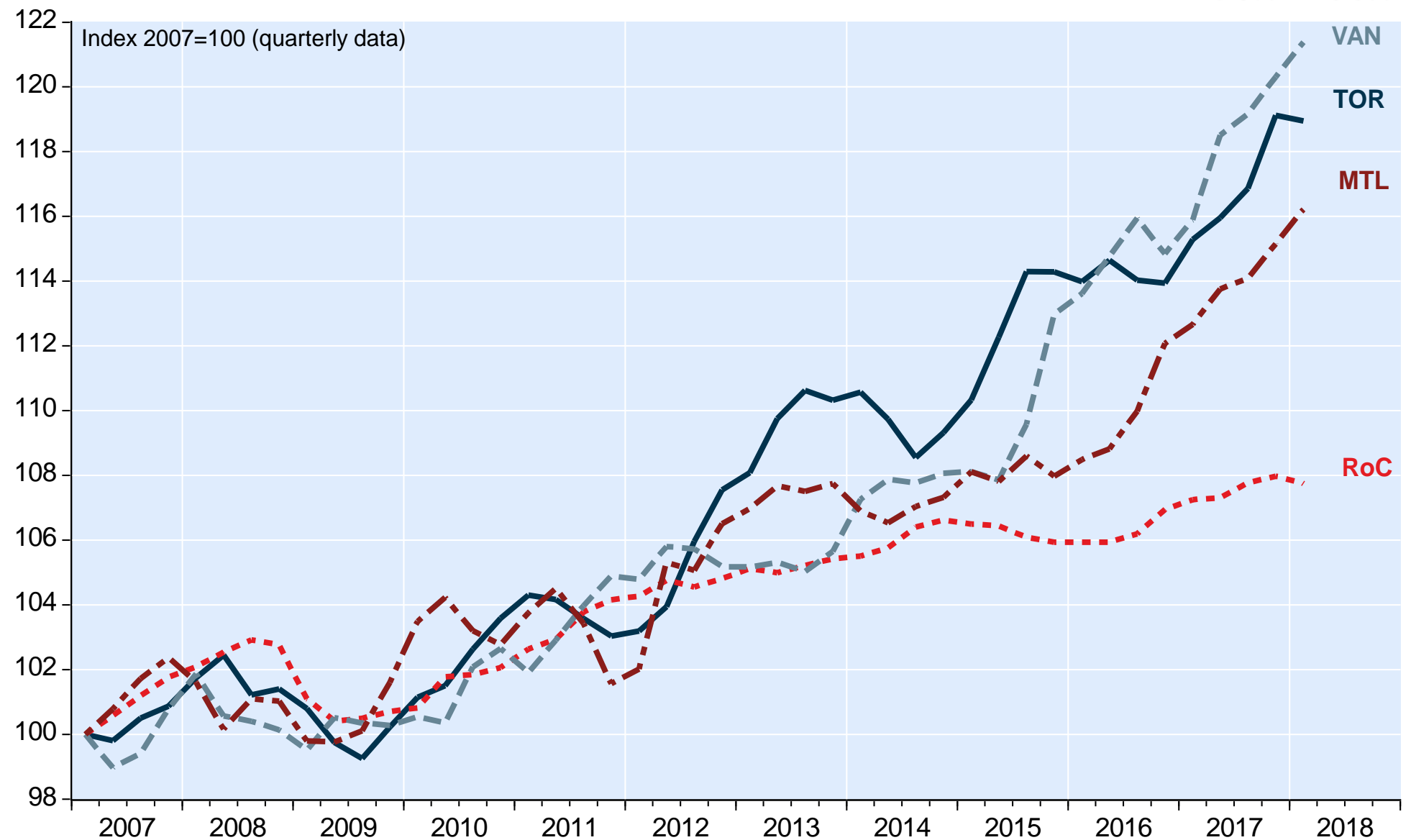


NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

Canada: Job creation in the main cities

Job creation in greater Vancouver, greater Toronto, greater Montreal and rest of Canada (RoC)

36% = 88%

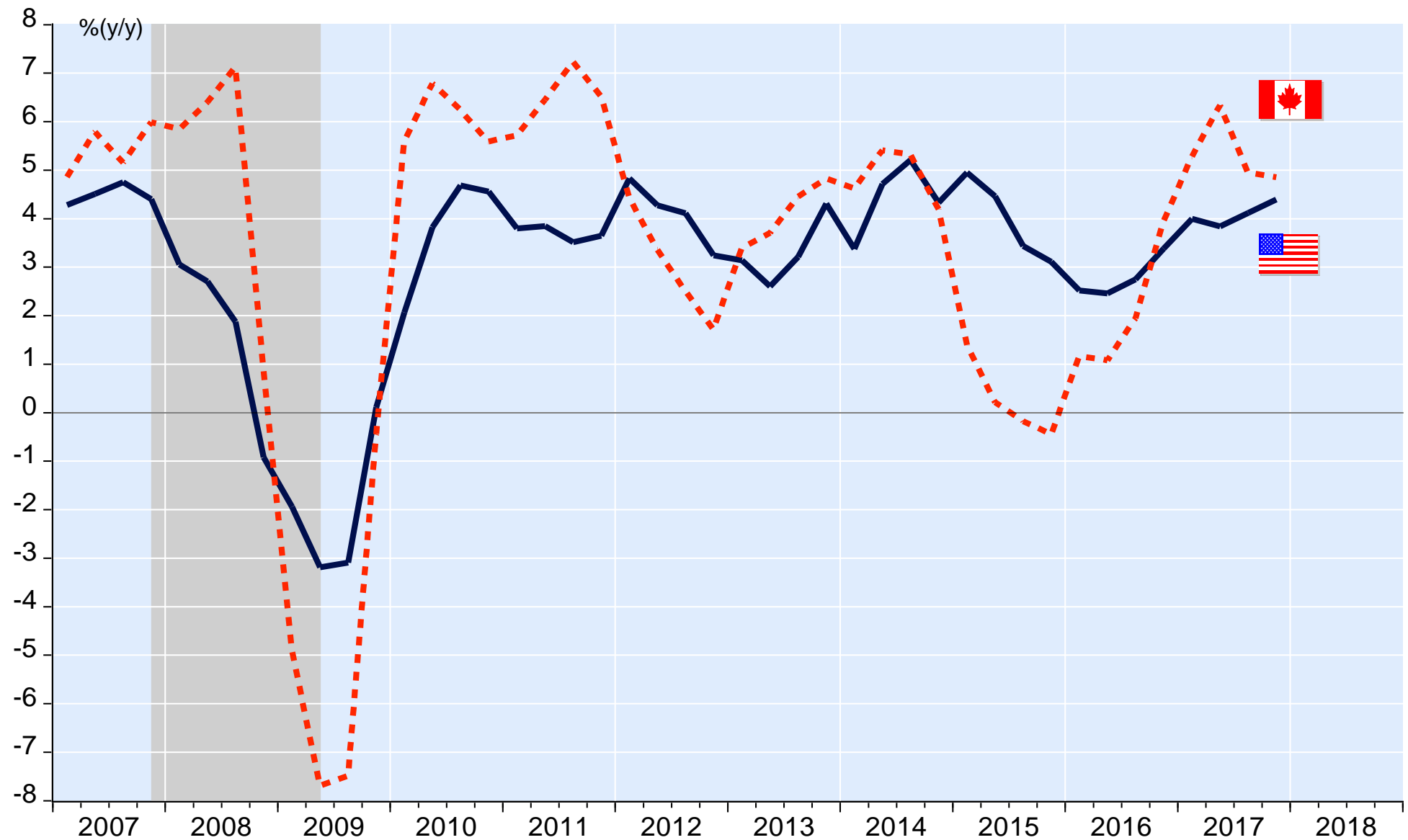


NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on nominal GDP

Nominal GDP growth

Economy is
doing well



NBF Economics and Strategy (data via Statistics Canada and Datastream)

Canada: Earnings expected to hit a record

Trailing earnings for the S&P/TSX

Profits are
doing well

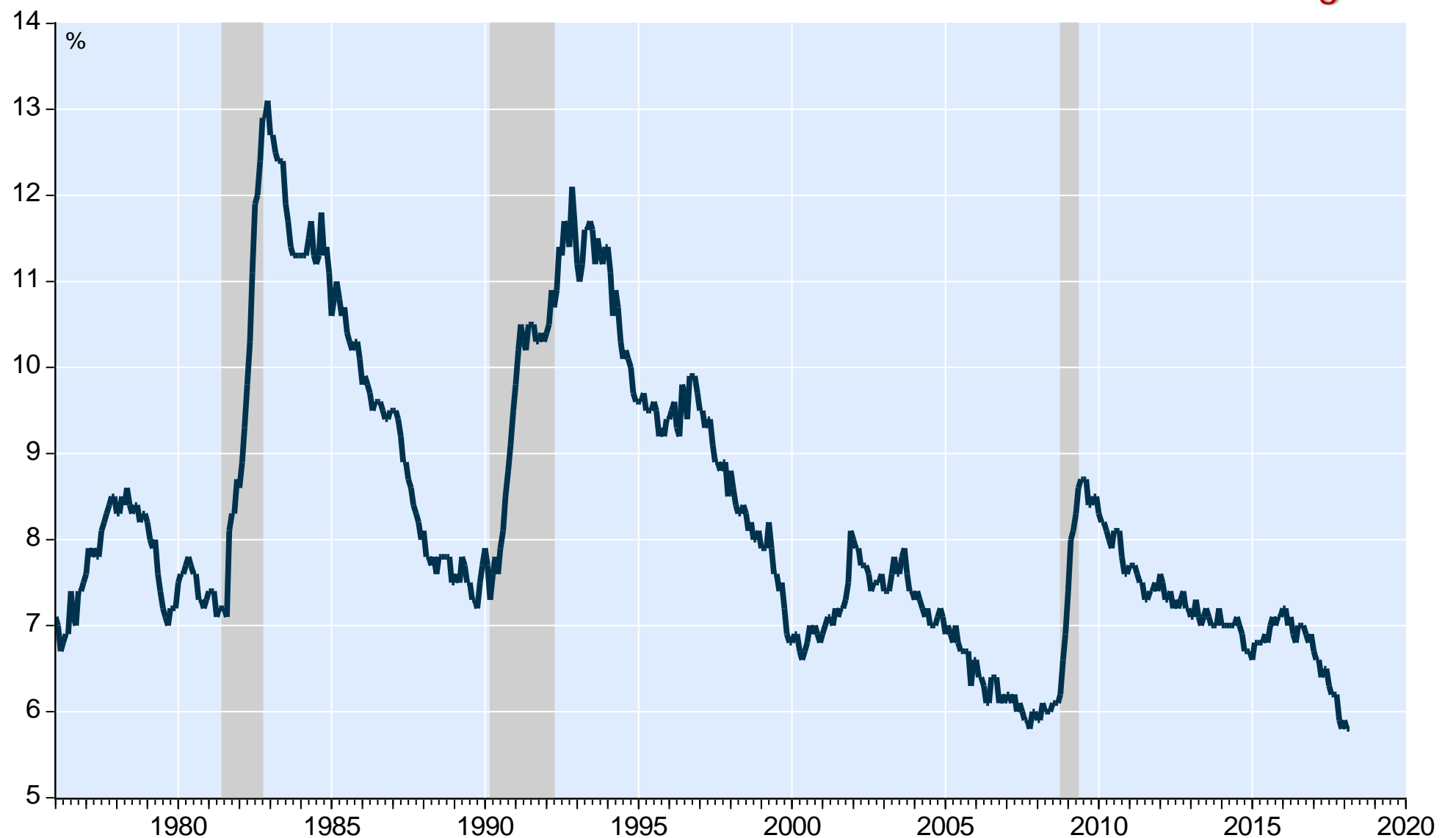


NBF Economics and Strategy (data via Datastream)

Canada: Perspective on labour-market slack

Unemployment rate

Labour market
is tight

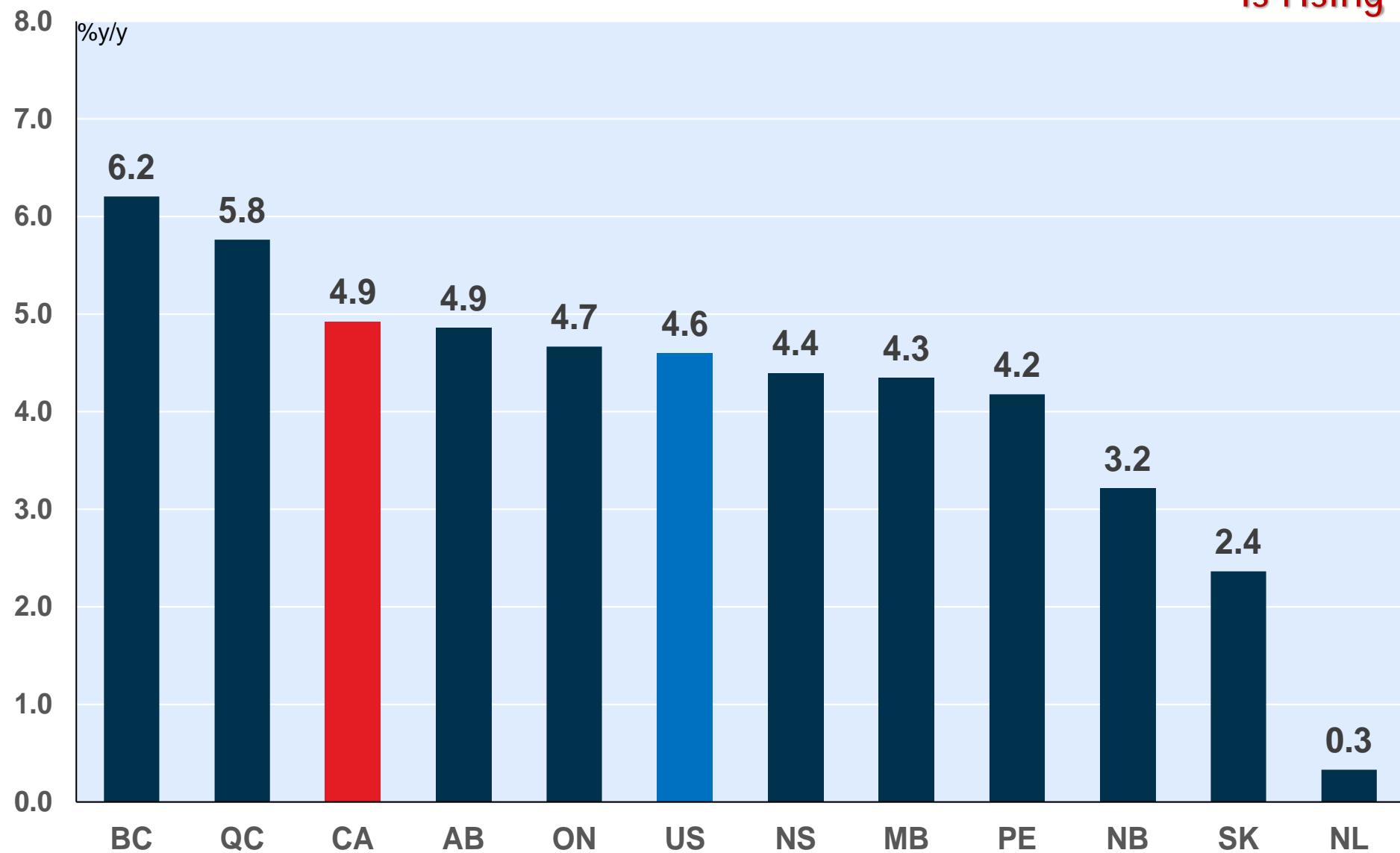


NBF Economics and Strategy (data via Statistics Canada)

Canada: Growth in wages & salaries

Q4 2017 vs. Q4 2016

Labour income
is rising

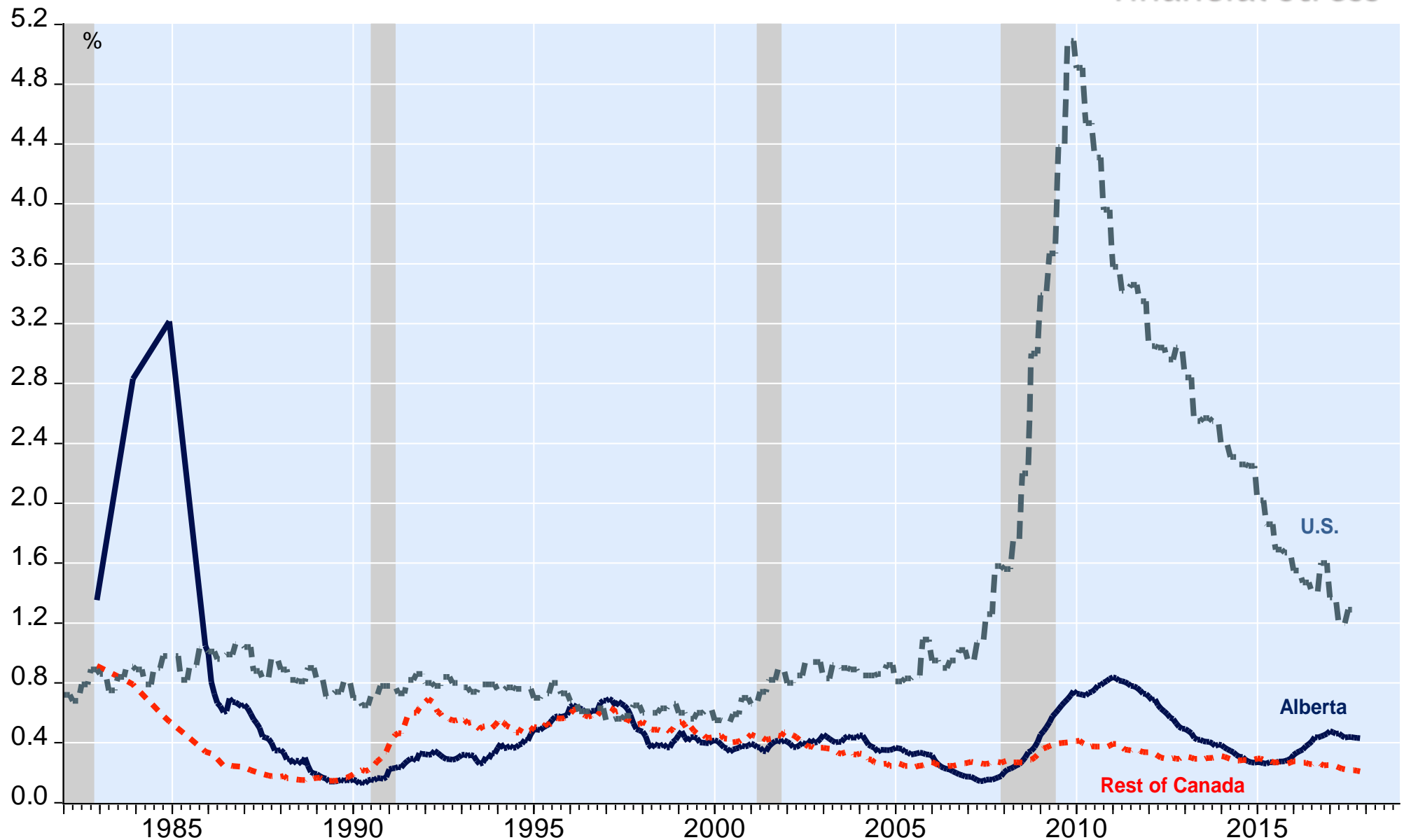


NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on mortgage market

Delinquency rates on residential mortgage loans

No evidence of financial stress

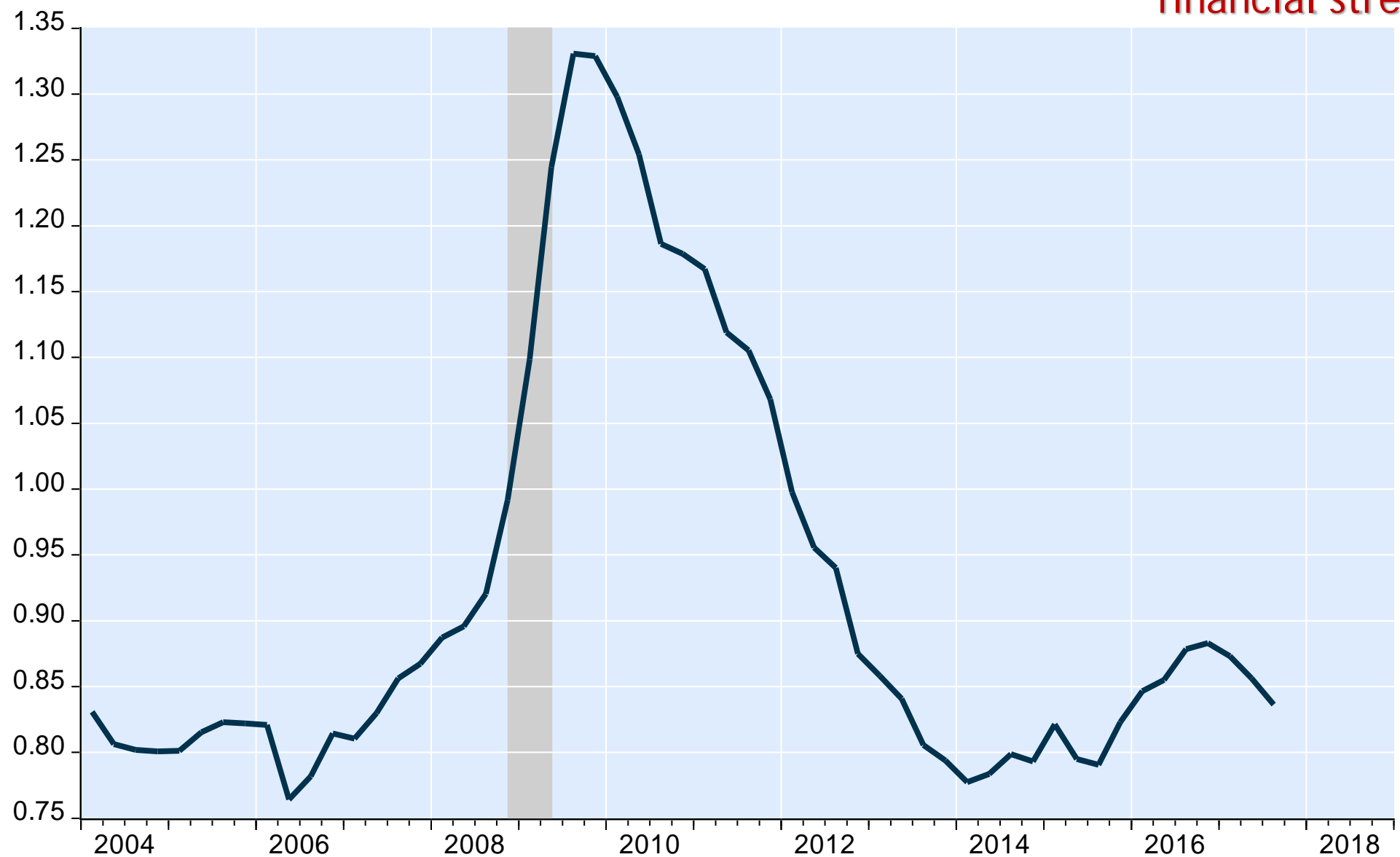


NBF Economics and Strategy (data via CBA and U.S. MBA)

Canada: Perspective on household financial stress

Credit card delinquency rate (90 days +) – Visa and Mastercard

No evidence of
financial stress

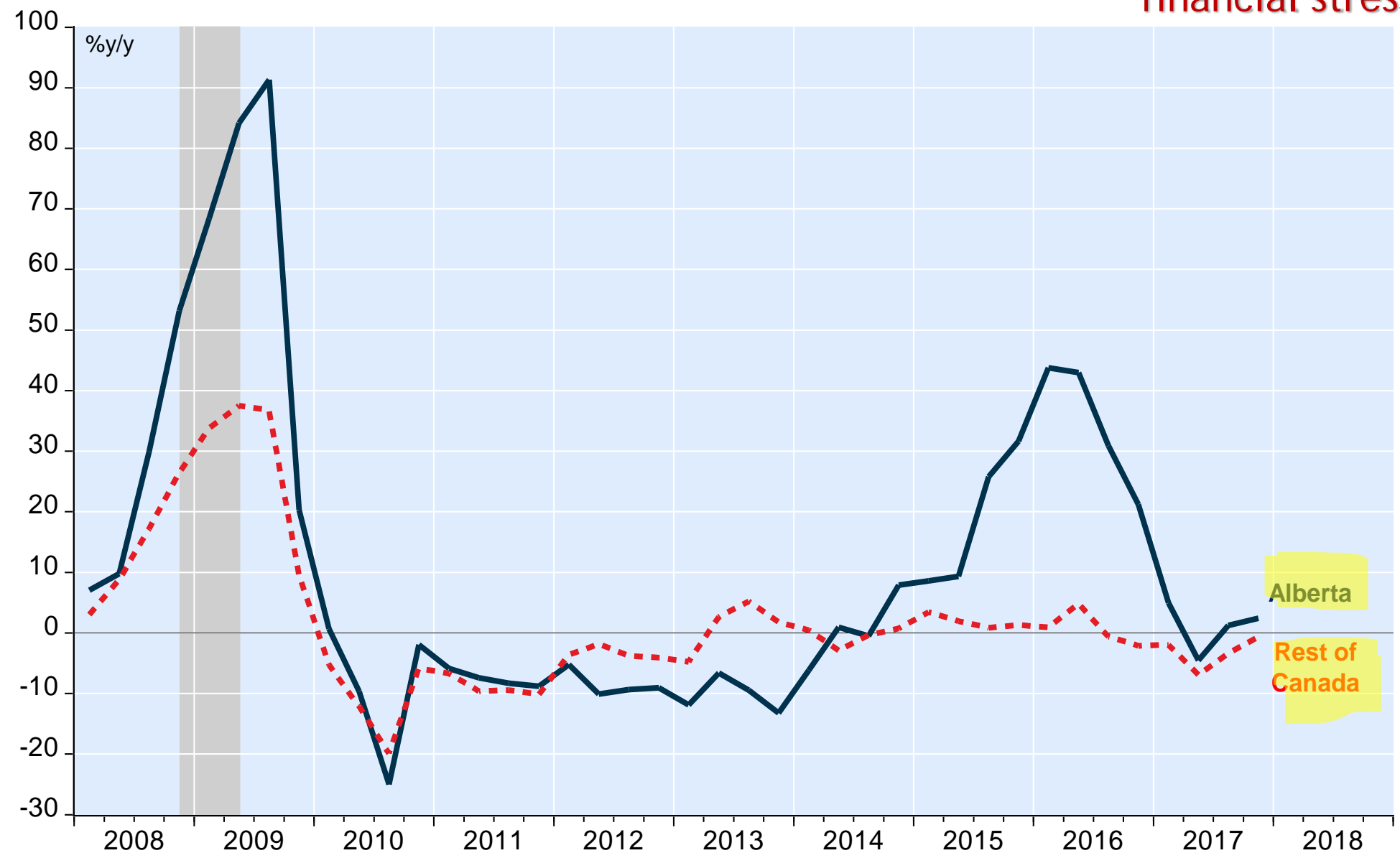


NBF Economics and Strategy (data via CBA seasonally adjusted by NBF)

Canada: Personal bankruptcies

Number of personal bankruptcies and proposals to creditors

No evidence of financial stress

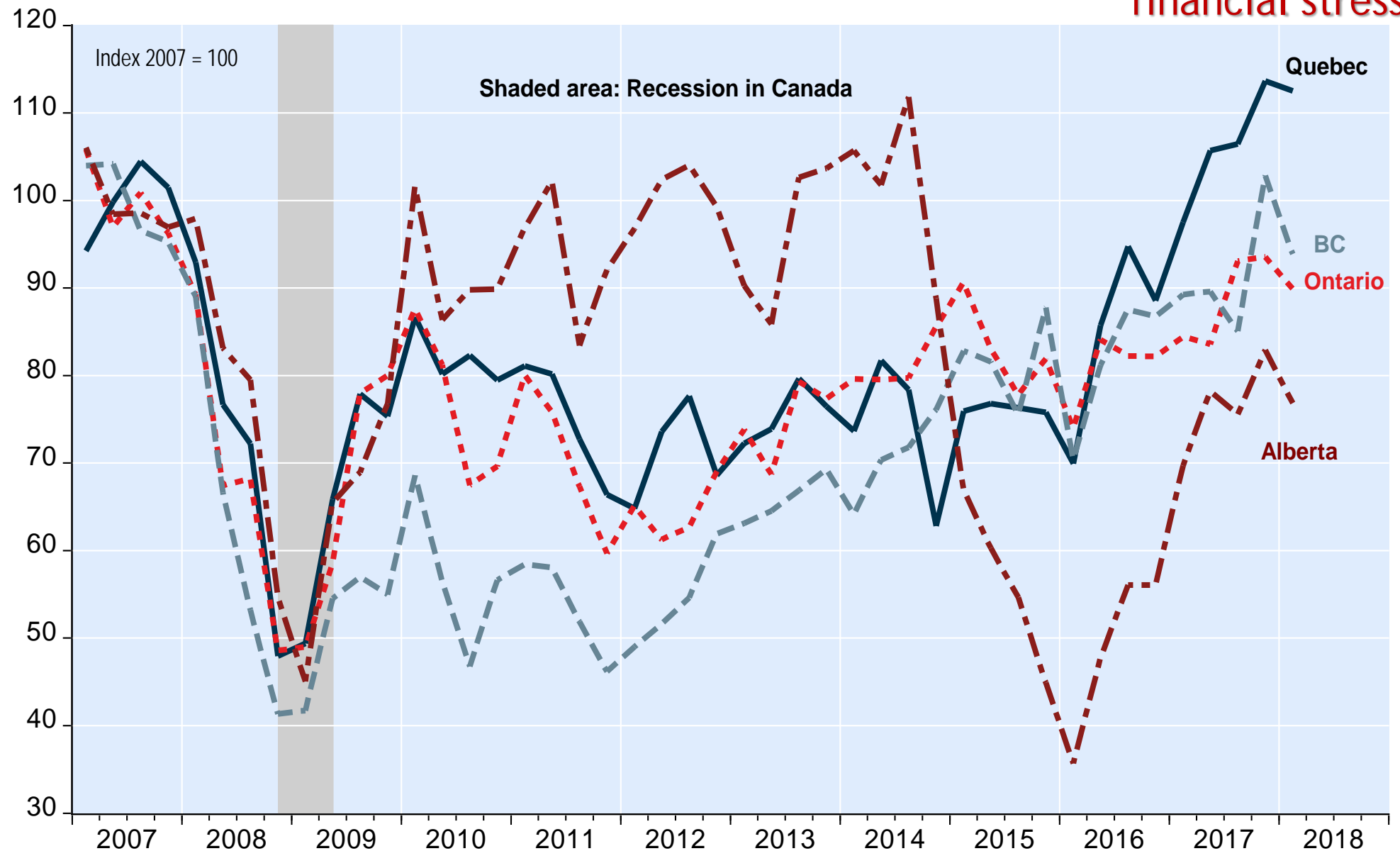


NBF Economics and Strategy (data via Office of Superintendent of Bankruptcy Canada)

Four main provinces: Index of consumer confidence

Quarterly data;

No evidence of
financial stress

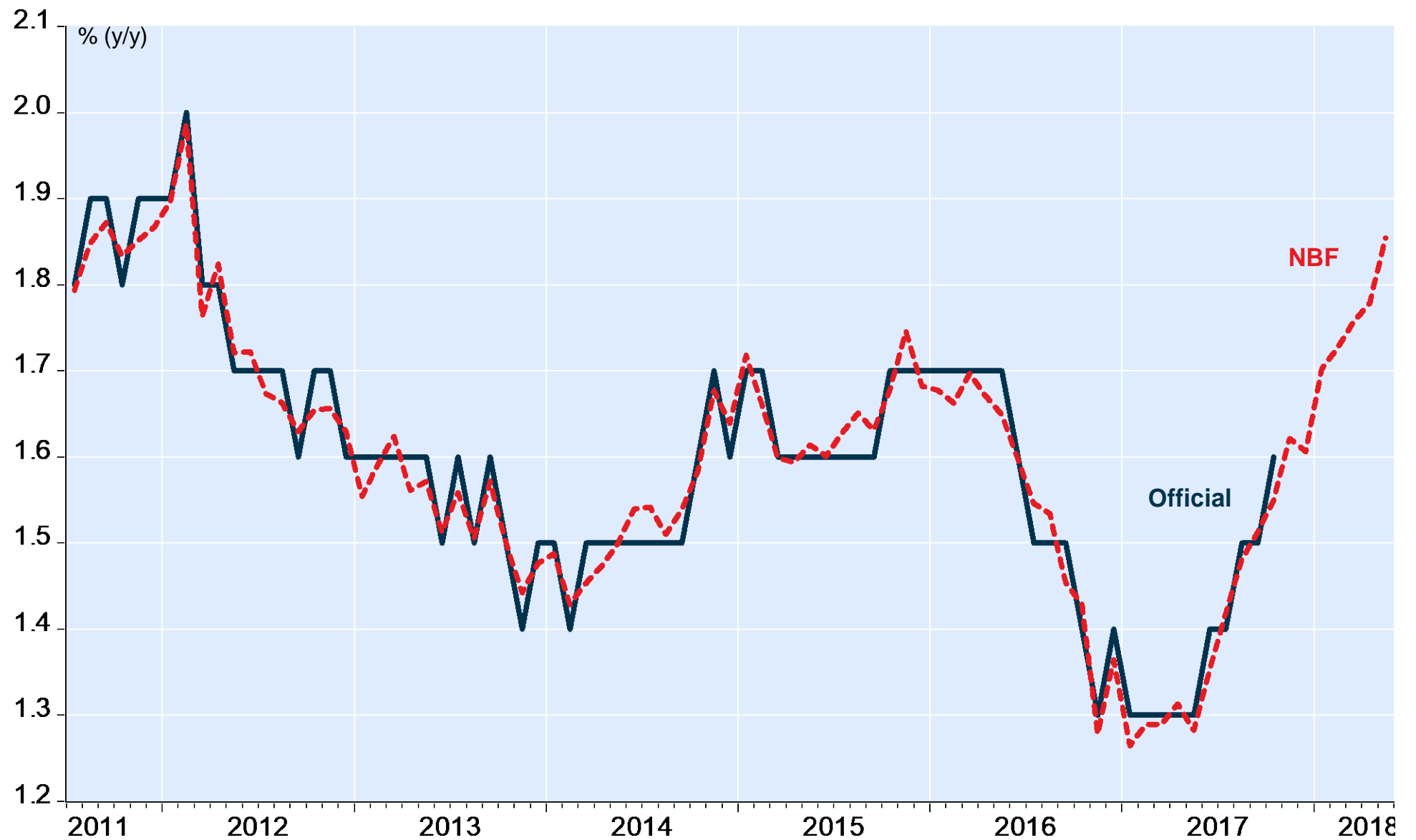


NBF Economy and Strategy, data from Conference Board of Canada

Canada: Perspective on CPI-common

Core inflation based on common component measure

More evidence
of inflation

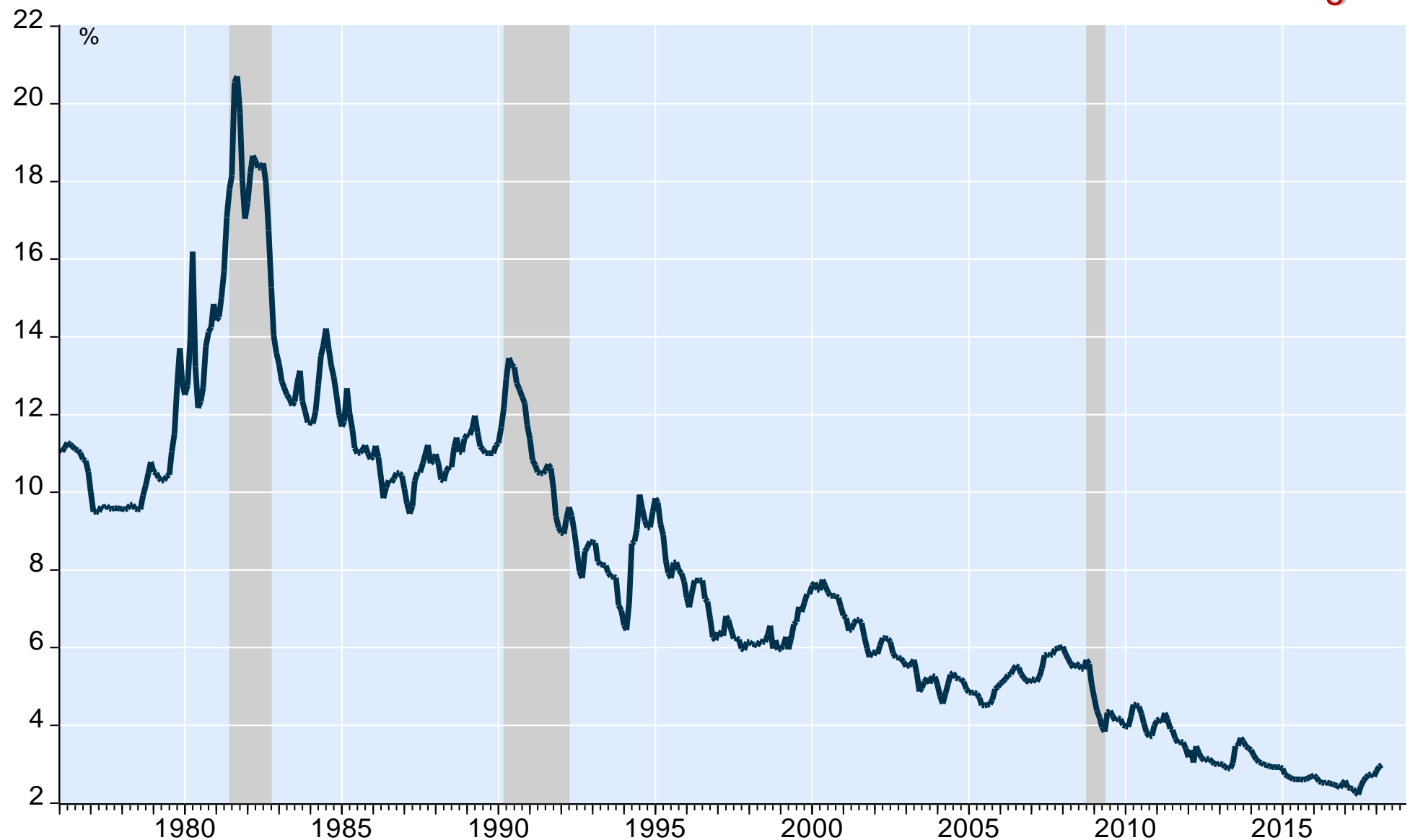


NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on mortgage interest rates

5-year mortgage interest rate

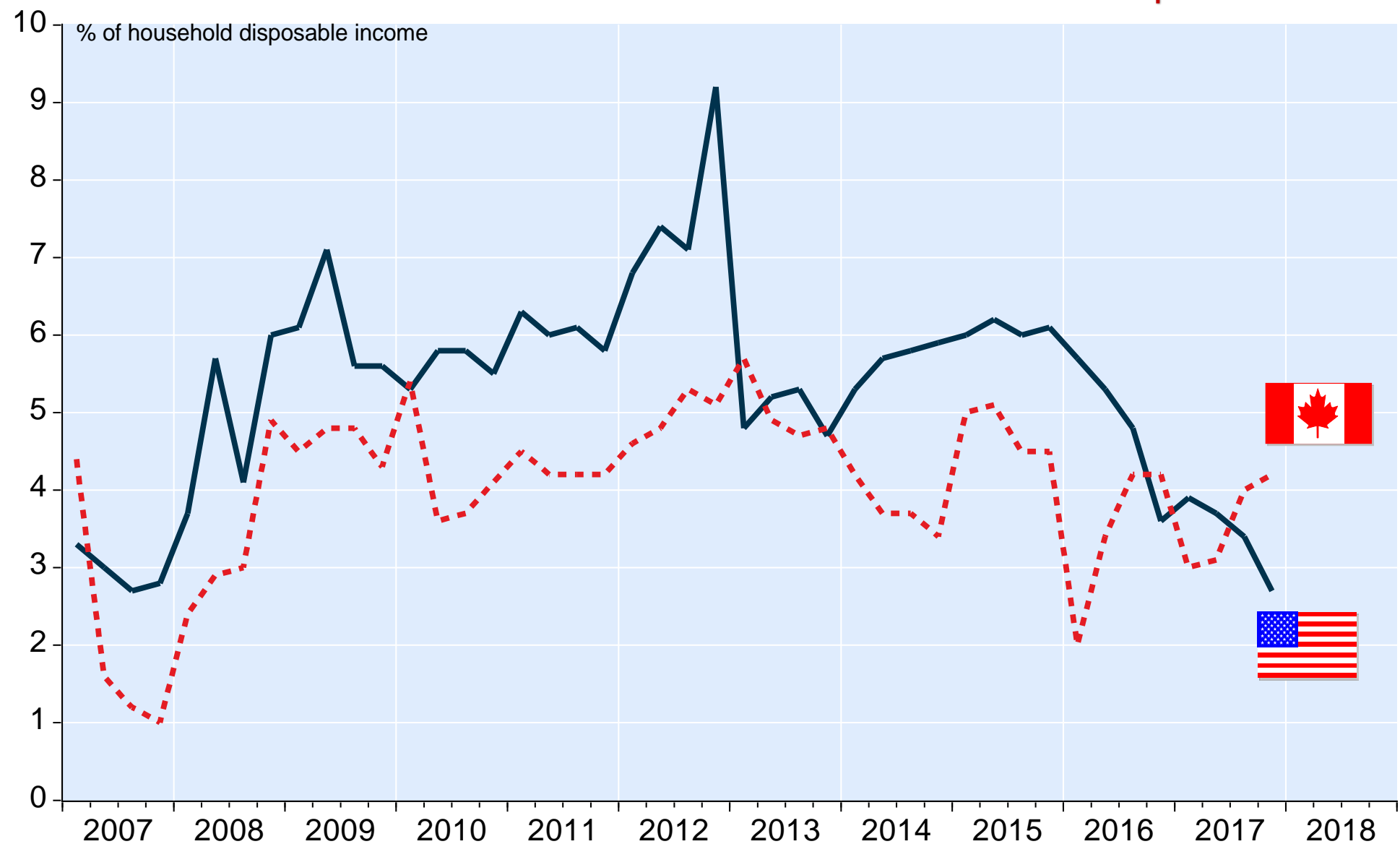
Rates will
move higher



NBF Economics and Strategy (data via National Bank Financial Strategic Data Analytics)

Household net savings rate

Some room to spare in Canada



NBF Economics and Strategy (data via Statistics Canada and Datastream)

Conclusion:

- **World, U.S.: Another year of above-potential growth**

- Global growth near 3.7% in 2018
- China continues to grow at around 6.5% (good enough)
- Eurozone, still great at 1.9%
- Geopolitical risks to remain a major source of concern: U.S. Trade Policy?

Interest rates, currency:

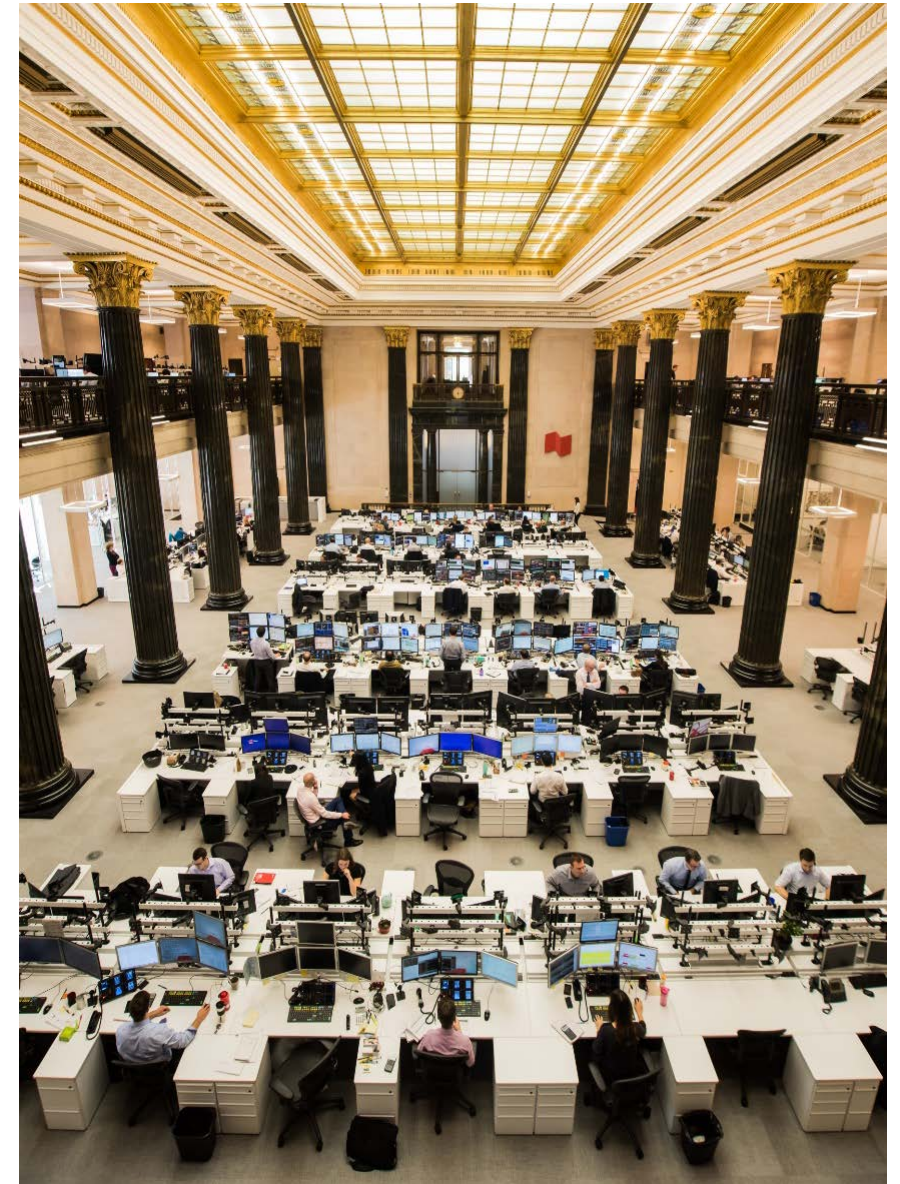
- The Fed probably hikes two more times in 2018 ; 10-year Treasury yield near 3.0%.
- Expect the BoC to hike again in H2 2018 (heading towards 2%); GDP 2.5% in 2018
- Canadian dollar in the 1.20-1.30 range (stronger in short-term); Oil in the \$55-\$62 range
- Large correction in housing unlikely unless labour markets deteriorate markedly or mortgage rates surge.

WE DIFFER FROM THE U.S. WHEN IT COMES TO DEMOGRAPHICS

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NBC at 1155 Metcalfe Street, Montreal, Canada



First Panel Discussion: Covered Bonds in Canada

Panel Moderator

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Wojtek Niebrzydowski
CIBC

David Power
Royal Bank of Canada

Jacob Pinto,
Bank of Montreal

Jean Blouin,
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Janet Boyle,
Scotiabank

Greg McDonald,
TD Bank



Canadian Bail-In Regime

Andrew Fleming

Norton Rose Fulbright

Vancouver – 18 April 2018

Financial institutions
Energy
Infrastructure, mining and commodities
Transport
Technology and innovation
Life sciences and healthcare



Canadian Bail-in Regime

Andrew Fleming

Senior Partner

Norton Rose Fulbright Canada LLP

April 2018

Bail-in Introduction

- Bail-in regimes are being implemented in a number of jurisdictions in an effort to limit taxpayer exposure to losses of a failing institution and ensure the institution's shareholders and creditors remain responsible for bearing such losses.
- On June 22, 2016, legislation came into force in Canada, amending certain federal statutes pertaining to banks to create a bank recapitalization or “bail-in” regime for the six domestic systemically important banks (D-SIBs) in Canada.
- On June 16, 2017, the Department of Finance announced the publication of draft regulations under the CDIC Act and the Bank Act, which provide key details of the conversion, issuance and compensation regimes for bail-in instruments issued by D-SIBs.

Bail-in Introduction - 2

- The final version of the proposed regulations was published on April 18, 2018 and the regime will become effective on September 23, 2018.
- Pursuant to the CDIC Act, in circumstances when the Superintendent of Financial Institutions is of the opinion that a bank may no longer be viable, the Governor in Council may, upon a recommendation of the Minister of Finance that he or she is of the opinion that it is in the public interest to do so, grant an order giving CDIC the power to convert – by means of a transaction or series of transactions and in one or more steps - all or a portion of certain shares and liabilities of that bank into common shares of the bank or any of its affiliates.

Instruments eligible for conversion under bail-in

- debt other than subordinated debt issued by a D-SIB after September 23, 2018 that is:
 - unsecured (or, if partly secured, only the unsecured portion will be subject to bail-in),
 - tradable, (CUSIP, ISIN or similar number), and
 - perpetual or for an initial term of at least 400 days.
- subordinated liabilities and preferred shares issued after September 23, 2018 that are not non-viability contingent capital (NVCC) instruments.
- NVCC are instruments that are convertible into common shares by their terms at the point of non-viability of the D-SIB.

Instruments not eligible for conversion under bail-in

- non-transferable deposits (e.g. accounts and term deposits), covered bonds, structured notes (that meet the requirements of the proposed regulations), eligible financial contracts (derivatives), conversion or exchange rights that are convertible into shares.
- debt issued before September 23, 2018 unless such debt is amended after September 23, 2018 to increase the principal amount or extend the term of the debt.

Requirements applicable to issuance of bail-in eligible securities

- terms of bail-in instruments must provide for:
 - binding holder to the bail-in regime;
 - submission to the jurisdiction of Canadian courts regardless of governing law of contract; and
 - such terms to be binding on the holder of the instrument despite any other terms of the instrument, any other law governing the instrument and any other agreement or arrangement.
- any prospectus or other offering or similar document relating to an eligible bail-in instrument must include disclosure regarding its being subject to conversion into common shares.
- A D-SIB must not advertise or otherwise promote a bail-inable liability, including in its name, to a purchaser in Canada, as a deposit or any variation of that term.

Bail-in Process

- bail-in is undertaken by CDIC in one or more steps after OSFI determines that a D-SIB is non-viable or near non-viability and the federal government approves.
- A resolution order will then be issued. The resolution order will set out the terms of CDIC's temporary control or ownership of the D-SIB.
- After the bail-in process and other restructuring processes are completed, CDIC must return the bank to private control.
- This must happen within 1 year of the commencement of the bail-in (subject to extension to 5 years by government order).
- Following the resolution, CDIC will offer compensation to shareholders and creditors if they are "worse-off" as a result of CDIC's actions than if the D-SIB had been wound up in the normal course.

Conversion

- Conversion process is prescribed to maintain “relative” creditor hierarchy.
- Unlike NVCC instruments, the bail-in debt will not have a fixed conversion multiplier leaving it to CDIC to determine the conversion formula.
- CDIC must in carrying out a bail-in:
 - consider requirement of a bank under Bank Act (Canada) to maintain adequate capitalization; and
 - use its best efforts to:
 - convert all equally ranking bail-in instruments converted during the same restructuring period on the same proportionate basis; and
 - only convert a bail-in instrument if all NVCC instruments and subordinate ranking bail-in eligible instruments have been or will be concurrently converted.
- Holders of bail-in securities converted during the same restructuring period must receive more common shares per dollar amount of claim than converted subordinate ranking bail-in eligible instruments and NVCC.

Compensation for bank shareholders and creditors

- The regulations provide a process for bank shareholders and other creditors to obtain compensation if they are “worse off” as a result of CDIC’s actions as opposed to winding up.
- CDIC will provide an offer of compensation to such prescribed persons entitled to compensation.
- CDIC’s compensation offer may, if requested by prescribed persons representing at least 10% of the subject shares or liabilities, be reviewed by a third party assessor whose determination is final.
- Creditors who have liabilities assumed by a solvent third party after the date of the bail-in resolution or who have been made whole will not be entitled to compensation.

Total Loss-Absorbing Capacity (TLAC)

- On November 9, 2015, the Financial Stability Board (FSB) finalized minimum common international standards related to TLAC for global systemically important banks (G-SIBs).
- The standards are intended to address the sufficiency of G-SIBs' capital to absorb losses in a resolution situation in a manner that minimizes the impact on financial stability, ensures continuity of critical functions and avoids exposing taxpayers to loss.
- Under the final standards, G-SIBs are expected to meet a 16% TLAC ratio based on risk-weighted assets as from January 1, 2019, increasing to 18% as from January 1, 2022.
- In addition, G-SIBs are expected as from January 1, 2019 to maintain a TLAC leverage ratio of 6% of the Basel III leverage ratio denominator, increasing to 6.75% as from January 1, 2022.

Total Loss-Absorbing Capacity (TLAC) - 2

- On June 16, 2017, as part of the Federal Government's bail-in regime OSFI released a draft guideline on TLAC, applicable to Canada's D-SIBs.
- On April 18, 2018, OSFI published the final version of such guideline.
- The guideline is consistent with the TLAC standards released by the FSB for G-SIBs.
- The standards are intended to address the sufficiency of a systemically important bank's loss absorbing capacity in supporting its recapitalization in the event of its failure.
- The ratios based on risk-weighted assets and leverage will be set forth in orders issued by the Superintendent and are expected to be 21.5% and 6.75% respectively.

Total Loss-Absorbing Capacity (TLAC) - 3

- TLAC is defined as the aggregate of Tier 1 capital, Tier 2 capital, and “Other TLAC Instruments” (essentially bail-in instruments) which meet the additional eligibility criteria under the guideline.
- The additional eligibility criteria under the guideline include:
 - the instrument is directly issued by the Canadian parent bank
 - the instrument when issued, must be paid for in cash or, with the approval of the Superintendent, in property
 - the instrument cannot have been purchased by the institution or a related party except for the purpose of resale nor can the institution have provided financing for the expressed purpose of investing in the instrument
 - the instrument is neither fully secured nor covered by a guarantee
 - the instrument is not covered by set-off or netting

Total Loss-Absorbing Capacity (TLAC) - 4

- the instrument must not permit acceleration except on insolvency or on default to pay principal or interest after a 30 business day grace period
- the instrument is perpetual or has a residual maturity in excess of 365 days
- the instrument is callable or purchasable only by the issuer
- the instrument does not have a credit-sensitive dividend or coupon feature reset periodically based on the institution's credit standings
- any amendments or variances to the instrument affecting its TLAC status will need the prior approval of the Superintendent
- Note that if the instrument is governed by foreign law OSFI must receive an opinion of external counsel confirming Canadian statutory bail-in powers will apply.

Total Loss-Absorbing Capacity (TLAC) - 5

- On March 21, 2018 OSFI released a draft guideline on TLAC Disclosure Requirements outlining the ongoing disclosure requirements with respect to TLAC levels, which guideline contains TLAC disclosure templates published in the Basel Committee on Banking Supervision Pillar 3 Disclosure Requirements – consolidated and enhanced framework standards issued in March 2017 (also referred to as Phase II of Pillar 3).
- The guideline provides for quarterly disclosure at the same time as the publication of financial statements starting with fiscal Q1 2019 reporting.
- The deadline for comment on the draft guideline was April 17, 2018

Further Reading

Norton Rose Fulbright Legal Update

A Comparison of Bail-in Regimes – Part 1

<http://www.nortonrosefulbright.com/knowledge/publications/155431/a-comparison-of-bail-in-regimes-part-1>

(A comparison of the Canadian and United Kingdom bail-in regimes)



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Presentation of the European Commission's Proposed Covered Bond Directive

Didier Millerot

European Commission

Vancouver – 18 April 2018



CAPITAL MARKETS UNION

#CMU

**The Commission proposal on
Covered bonds: a milestone for
the CMU?**

EMF-ECBC Conference Vancouver 18 April 2018

Measures presented on:

8 March

- Action Plan on Fintech
- Proposal on crowdfunding
- Action Plan on Sustainable Finance

12 March

- **Enabling framework on Covered bonds**
- Regulation on cross-border distribution of investment funds
- Regulation and Communication on ownership of securities and claims

Context

PROBLEMS

Untapped CMU potential

Preferential prudential treatment granted to different products

OBJECTIVES

Leveraging banking capacity to support the wider economy

Addressing prudential concerns

CONVERGING VIEWS

- Stakeholders supporting view (public consultation closed January 2016)
- EBA Report, December 2016
- ICF Report delivered March 2017 and published May 2017
- EP Report, approved July 2017

Guiding principles of the proposal

- Largely inspired by 2016 EBA report
- “Enabling” legislation (CMU): wide consultation, leverage best practices, *“don’t fix what’s not broken”*, need for caution
- Balanced and proportionate approach: need for a common EU denominator vs risks of a strait jacket → “Directive” with “principle-based” provisions
- The Directive regulates the product, not the issuer... focus on investor protection.
- Minimum harmonisation: but no more a covered bond if not compliant with the Directive!
- Prudential dimension: adjustments to the CRR (ex. OC requirements)

Commission Impact Assessment : Benefits

- a) **All MS** will have a legal CB framework in place in line with EBA best practices
- b) Benchmark additional issuance: **171/342 billion**. In new MS: EUR 63 billion
- c) Savings for banks: **between EUR 1,65 and EUR 2.7 billion** annually (a funding benefit of 30-45 bps on new issuance + 5 bps on all covered bonds)
- d) Saving for borrowers: benchmark **between €1.1 bn and €1.9 billion**.
- e) Increase in **cross border investments** and cover pools
- f) Address **prudential concerns**

Commission Impact Assessment: Costs

- a) **No impact on existing CB** thanks to grandfathering
- b) **Increase in costs for issuers** only in jurisdictions not aligned with EBA best practices
- c) Increase in **costs for supervisors** only where supervision is currently not adequately carried out.
- d) Increase in **costs for granting permission** only where this is not currently envisaged
- e) **Costs are not expected to rise** but to lower for investors

The Covered Bonds “Package”

DIRECTIVE

(defining EU covered bonds)

REGULATION

(amending art 129 CRR)

Directive

- Provides common definition of covered bonds
- Single and consistent point of reference for other EU laws
- Main elements:
 1. Definition and structural features
 2. Covered bond public supervision
 3. Label
 4. Transitional measures + Transposition

Directive

1. Definition and structural features

- a) Issued only by credit institutions (art 2)
- b) Dual recourse (art 4)
- c) Bankruptcy remoteness (art 5)
- d) Safety of the cover pool
 - High-quality eligible assets (art 6)
 - Segregation of the cover pool (art 12)
 - Location of the assets (art 7)
 - Composition of the cover pool (art 10)
 - Derivatives (art 11)
- e) Joint funding and intra-group structures (artt 8 and 9)
- f) Cover pool monitor (art 13)
- g) Transparency requirements (art 14)
- h) Coverage requirements (art 15)
- i) Liquidity requirements (art 16)
- j) Extendable maturity structures (art 17)

Directive

2. Covered bond public supervision

- a) Appointment of the national competent authority (art 18)
- b) Permission to issue covered bonds (art 19)
- c) Ongoing supervision of the CB programme (art 21, 22)
- d) Covered bond supervision in insolvency or resolution (art 20)
- e) Reporting to competent authorities (art 21)
- f) Administrative penalties and remedial measures and their publication (art 23 and 24)
- g) Cooperation obligations (art 25)
- h) Disclosure requirements (art 26)

Directive

3. Label

A new “label” for “European covered bonds” (art 27)

- Purpose: make it easier for investors to assess quality of CB
- Not mandatory. It can be used along with national labels
- Label is not mandatory, while compliance with Directive is.

Directive

4. Transitional measures and transposition

- a) Generous grandfathering provisions (art 30)
- b) Review and report in 3 years after transposition (art 31)
- c) Review of third-country regime (art 31)
- d) Transposition: 12 months (art 32) + link with entry into force of the Regulation

Regulation

- Amends art 129 of Regulation EU 575/2013 (CRR)
- Main elements:
 1. Substitution assets
 2. Soft LTV limits
 3. Rules on exposure
 4. Securitised products not eligible anymore
 5. Overcollateralization
 6. Transparency requirements moved to Directive

Regulation

4. Overcollateralization

- a) 5% limit as in the EBA Report
- b) Possibility to go lower only if prudential methods to evaluate assets are in place
- c) In any case not lower than 2% (nominal method)

Timeline



Key challenges for the negotiation

- Limited time for negotiation but could be positive as well
- Limits of the principle-based approach: ex. article 6 on eligible assets
- Need to maintain a common denominator that makes sense and improve the quality of the product → challenge of the national transposition process

Thank you!

Second Panel Discussion: Covered Bonds in Europe: A Common Framework for Covered Bonds

Panel Moderator

***Luca Bertalot,
EMF-ECBC***

Didier Millerot
European Commission

Morten Bækmand Nielsen
***Nykredit & Chairman of ECBC Technical
Issues Working Group***

Boudewijn Dierick
***BNP Paribas & Moderator of ECBC European
Secured Notes (ESN) Task Force***

Wolfgang Kälberer
vdp

Anne Caris
Banque Pictet

Friedrich Luithlen
DZ Bank AG



The Investor's Perspective

Anne Caris

Banquet Pictet

Vancouver – 18 April 2018

Investor's Perspective

Anne Caris

18th April

European Covered Bond Council Plenary Meeting, Vancouver

We remain selective (if NIP or need, quality names only, in few markets)

5y EUR AAA Covered bond vs swap spread



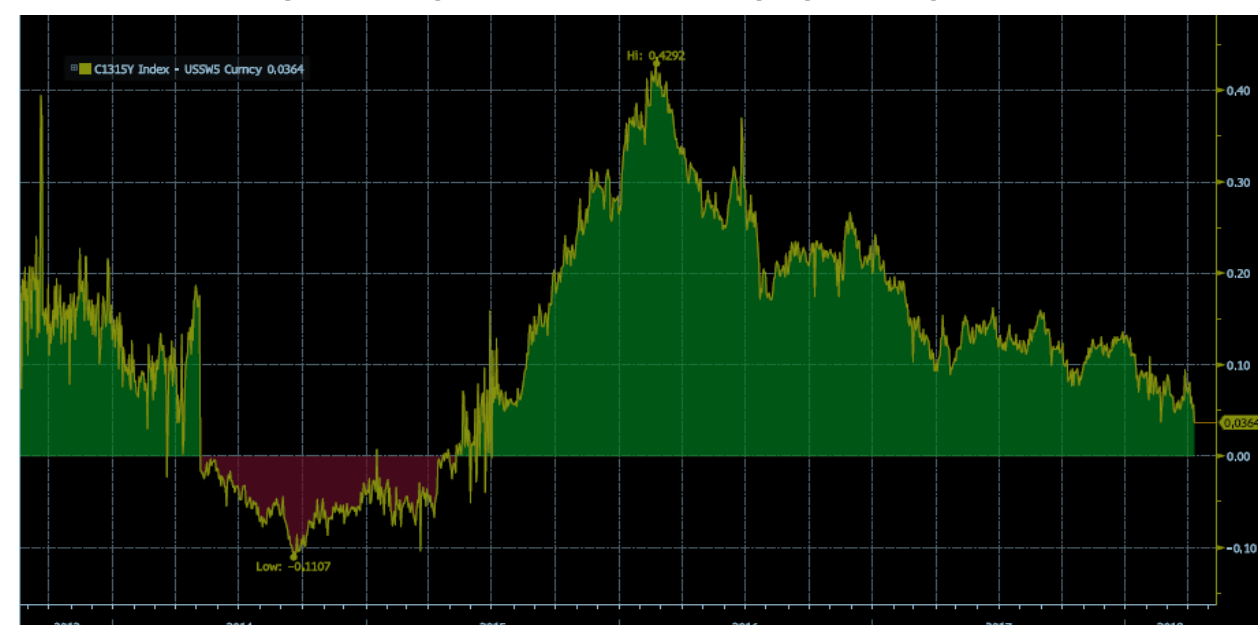
5y USD AAA Covered bond vs swap spread



5y EUR AA Agencies vs swap spread spread



5y USD Supranational vs swap spread spread



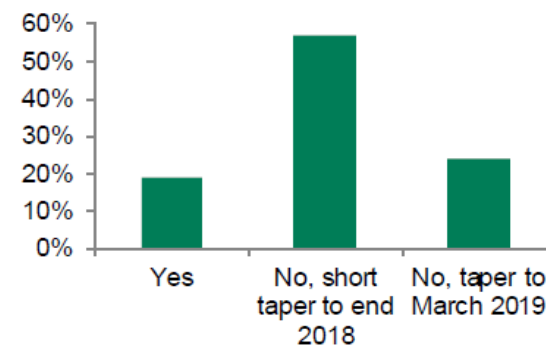
Source: Blommborg

End of ECB QE: possible benefits are still uncertain

- QE end yet to be announced + material reinvestment needs anyway
- Our investment focus = outside peripheral markets which should correct the most
- Other headwinds = widening investor base & limited supply

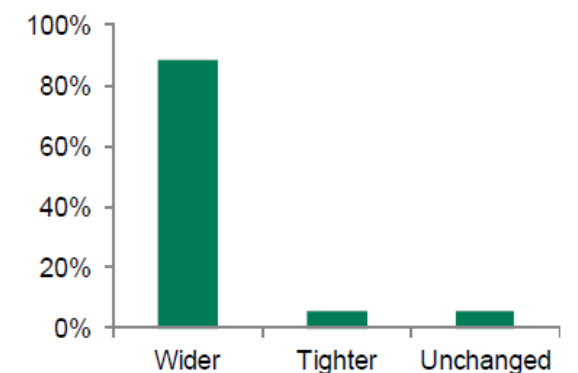
IMN Global Covered Bond Conference attendee online polls:

“Will the ECB reduce net asset purchases to zero from September or taper longer?”



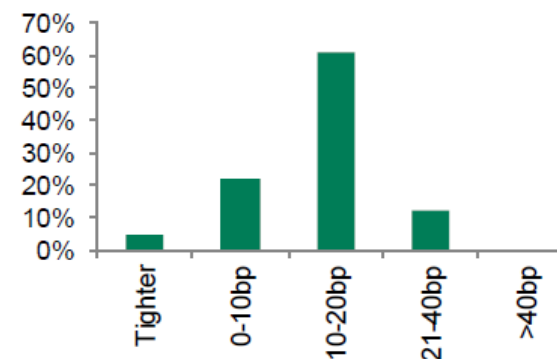
Source: IMN, Crédit Agricole CIB

“Covered bond swap spreads at the end of 2018 will be...”



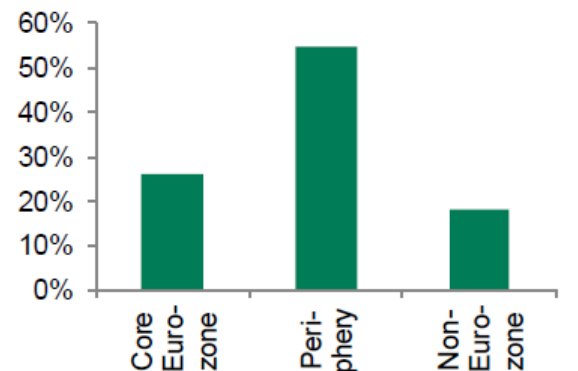
Source: IMN, Crédit Agricole CIB

“How much wider are we going from here?”



Source: IMN, Crédit Agricole CIB

“What sector is most at risk over the coming year?”



Source: IMN, Crédit Agricole CIB

Regulatory treatment is critical in our investment strategy unsurprisingly

The global covered bond market is not yet a level playing field

- **Repo eligibility:** sustained major discrepancies between central banks, including in new markets

- **LCR recognition:** diverging preferential treatment – another constraint on top of our own investment criteria – with the EU still being the most favourable

- **Proposed EC Covered Bond Directive & Regulation:**
 - An important step confirming the EU willingness to safeguard a critical bank funding tool
 - Positively, some key features being clarified (o/w liquidity buffer, maturity extension, public supervision)
 - Key issues = (1) traditional assets only; (2) third-country regimes; (3) no confusion around covered bond labels & their purpose

ECBC Covered Bond Label: how does it help?

- Not a certification regarding quality
- Improved transparency
- Free access to information in a harmonised way, while upgradeable upon market needs
- User friendly 😊

Canadian covered bonds – outlook

- Among the least mis-priced as a non-EU market, although with possible headline risks
- Sound fundamentals overall expected to provide some degree of resilience vs housing & macroeconomic vulnerabilities
 - To watch: (1) housing market; (2) indebtedness vs interest rate rise; (3) unemployment risks esp. in light of NAFTA negotiations
- Important mitigating factors:
 - Strengthened & hands-on regulation / supervision
 - Healthy banks overall
 - Conservative underwriting criteria + high quality cover pools by legislation
 - Limited rating risks



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Introductory Speech

Jacek Kubas

Principal, Local Currency and Capital Markets Development, EBRD

Vancouver – 18 April 2018

EBRD & the World of Emerging Markets

Covered Bonds

Jacek Kubas



European Bank
for Reconstruction and Development

18 of April Vancouver, 2018

Why are we here

To develop open and sustainable market economies in countries committed to and applying democratic principles.

The EBRD – welcome to our world



#EBRDimpact

What we do



European Bank
for Reconstruction and Development

The EBRD invests to build up effective market economies in countries across three continents and to make a **positive impact on people's lives**.

With a focus on private sector investment and support for policy reform, we work to ensure that economies in our regions are **competitive, inclusive, well-governed, green, resilient and integrated**.



Our transition qualities



European Bank
for Reconstruction and Development

Competitive

Building dynamic and open markets that stimulate competition, entrepreneurship and productivity growth.

Well-governed

Promoting the rule of law, transparency, and accountability, and stimulating firms to adequately safeguard and balance the interests of their stakeholders.

Inclusive

Building inclusive market economies which ensure equal economic opportunity for all and leave no group behind.

Integrated

Building geographically integrated domestic and international markets for goods, services, capital and labour.

Resilient

Building resilient market economies that can withstand turbulence and shocks.

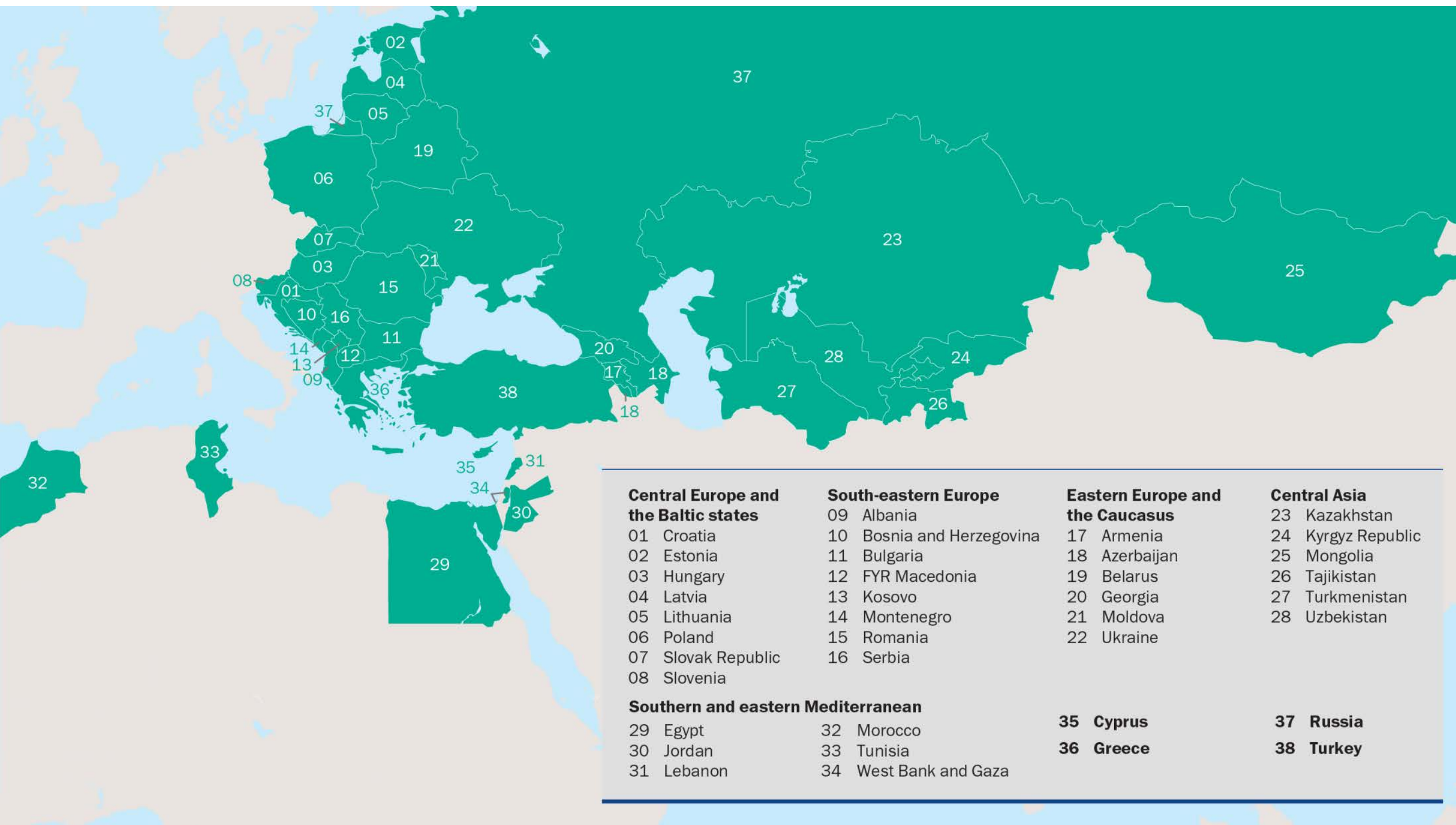
Green

Building green, sustainable market economies which preserve the environment and protect the interests of future generations.

Where we are



European Bank
for Reconstruction and Development

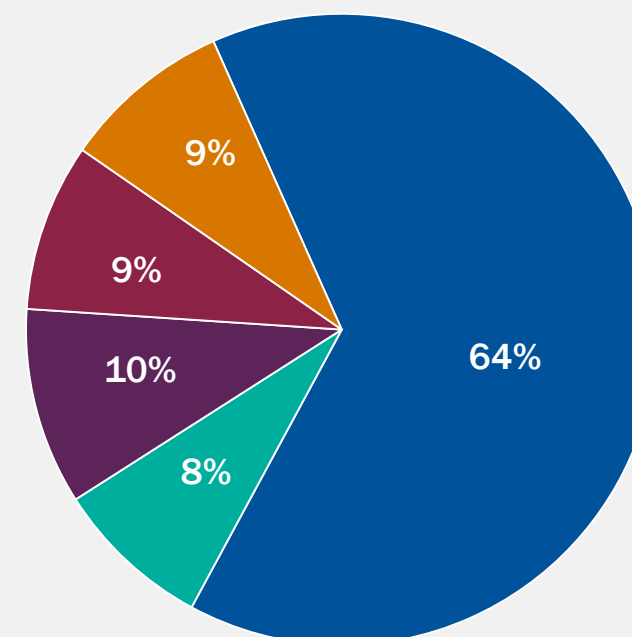


Established in 1991.

The EBRD is owned by 66 countries from five continents, as well as the European Union and the European Investment Bank. These shareholders have each made a capital contribution, which forms our core funding.

Capital base of €30 billion

The EBRD has a triple-A rating from all three main rating agencies (S&P, Moody's and Fitch)



EU27 countries
Includes European Community and European Investment Bank (EIB) each at 3%. Among other EU countries: France, Germany, Italy, and the UK each holds 8.6%

EBRD region
Excluding EU, Russia at 4%

USA

Japan

Other

As at January 2018

At a glance

Net cumulative Bank investment

€119.6 billion (since 1991)

€9.67 billion (in 2017)

Number of projects

5,035 (since 1991)

412 (in 2017)

Cumulative disbursements

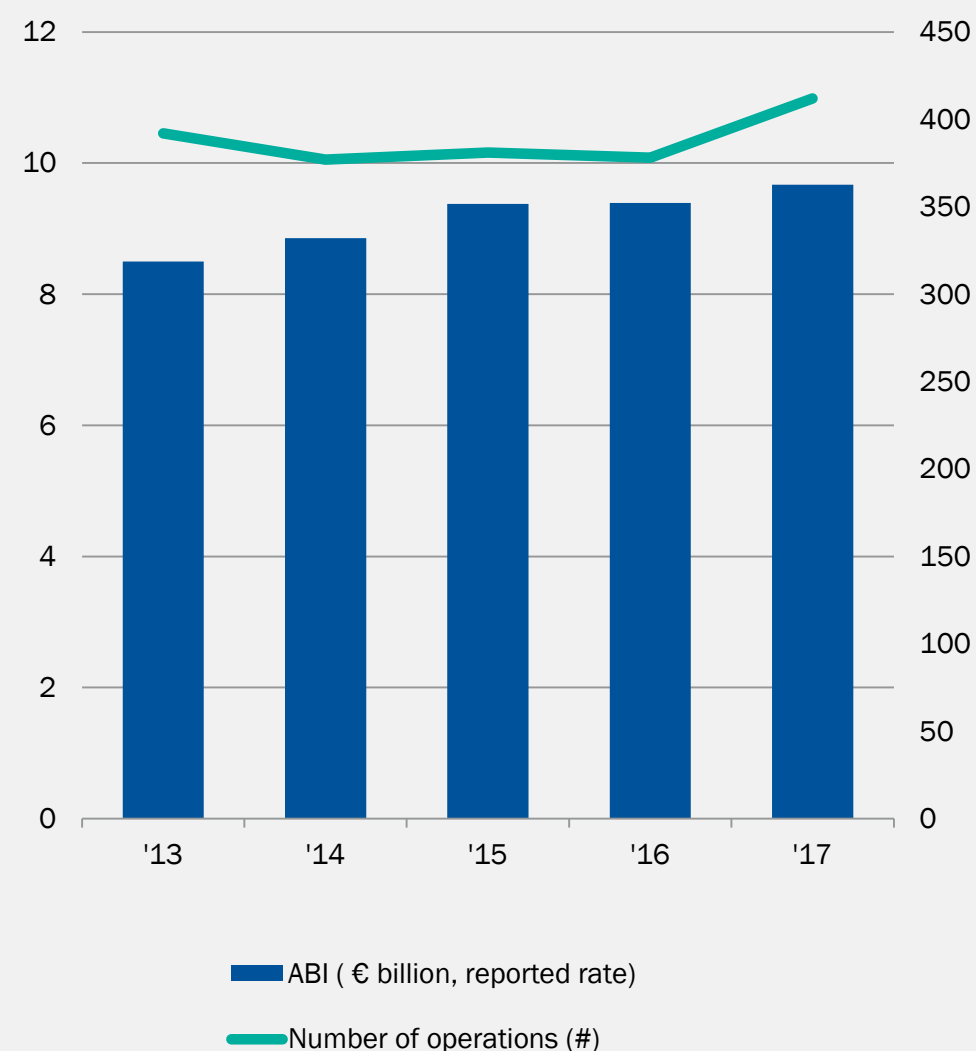
€91.5 billion

Private sector share of
cumulative investment

79%

“Total project value” is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with “annual Bank investment” (ABI) reflecting EBRD finance by year of commitment. The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

Annual Bank Investment and Operations



As at December 2017



European Bank
for Reconstruction and Development

EBRD And Covered Bonds

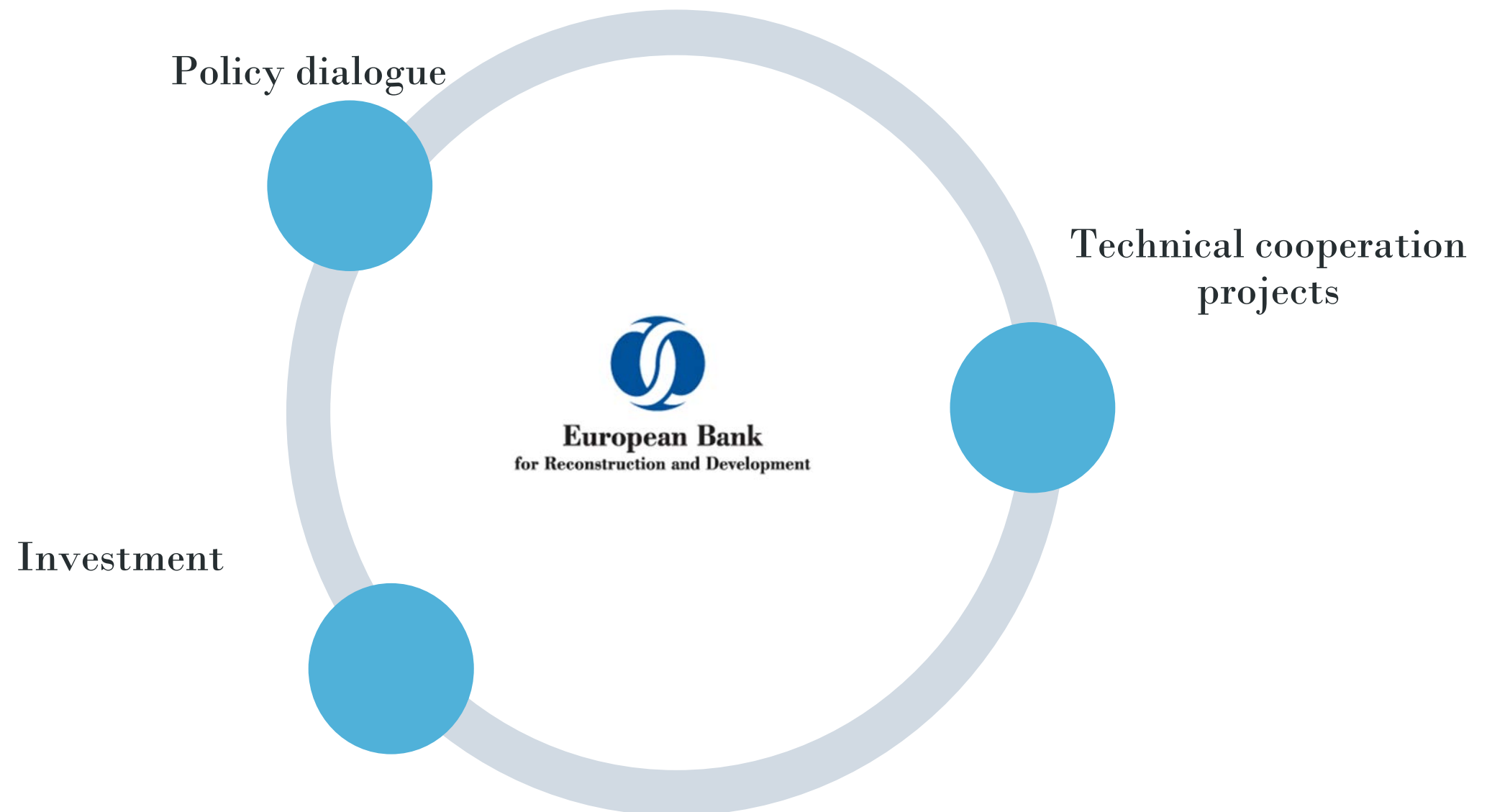
Covered bonds can provide several key benefits to EBRD's transition economies.



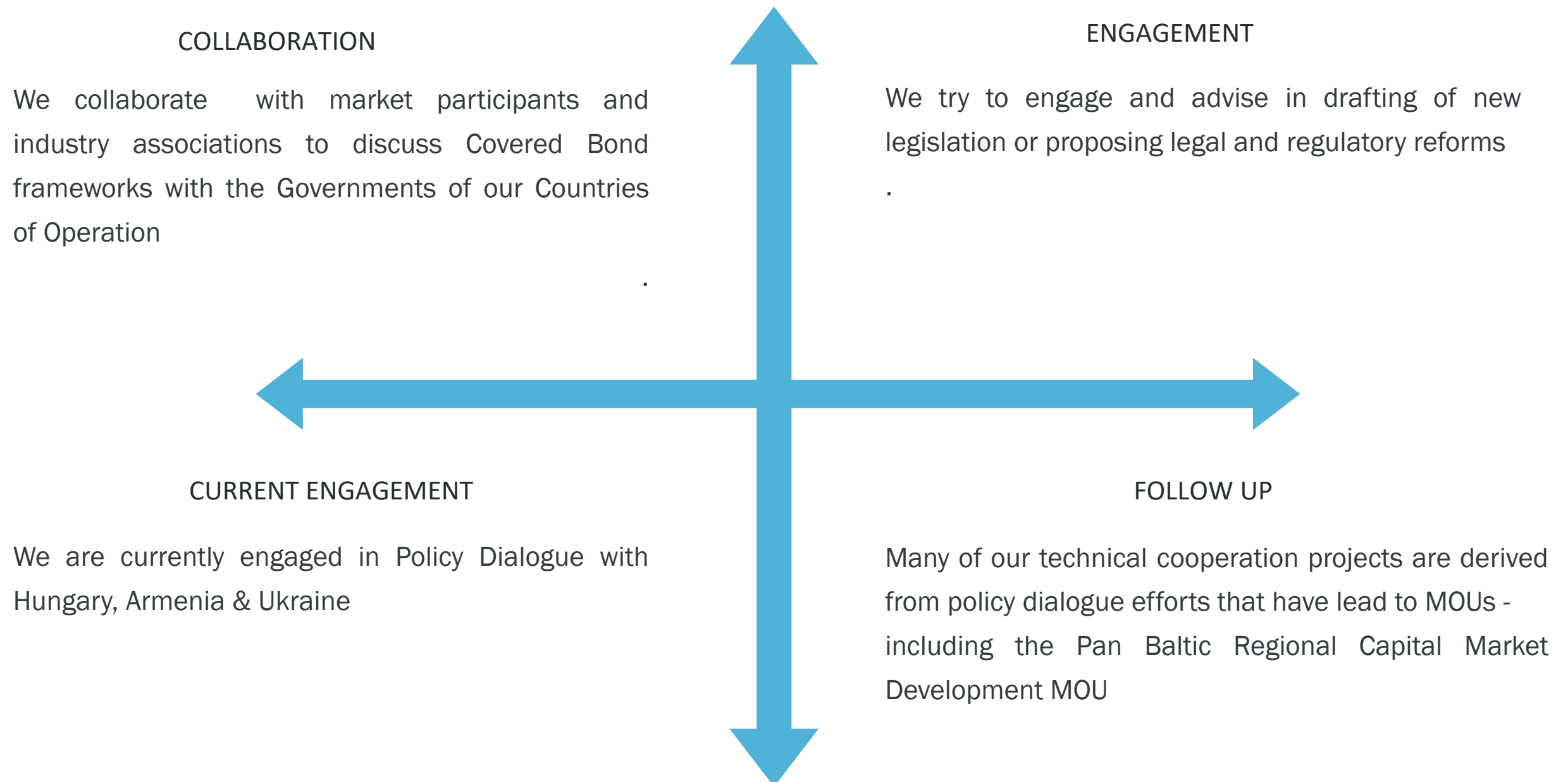
These fund longer-term assets in a way which is cost effective, and relatively delinked from their own credit rating covered bonds contribute to the stability of the banking system.

How does EBRD work on Covered Bonds?

The EBRD actively engages in the development of covered bonds markets in its countries of operations. The Bank supports this through all available tools:



The EBRD carries out Policy dialogue in a number of countries



Technical Cooperation

Our Technical Cooperation (“TC”) projects focus on reforming, creating and designing Covered Bond legal and regulatory frameworks and appropriate infrastructure.

Completed

Poland

Slovakia

Romania

Ongoing

Croatia

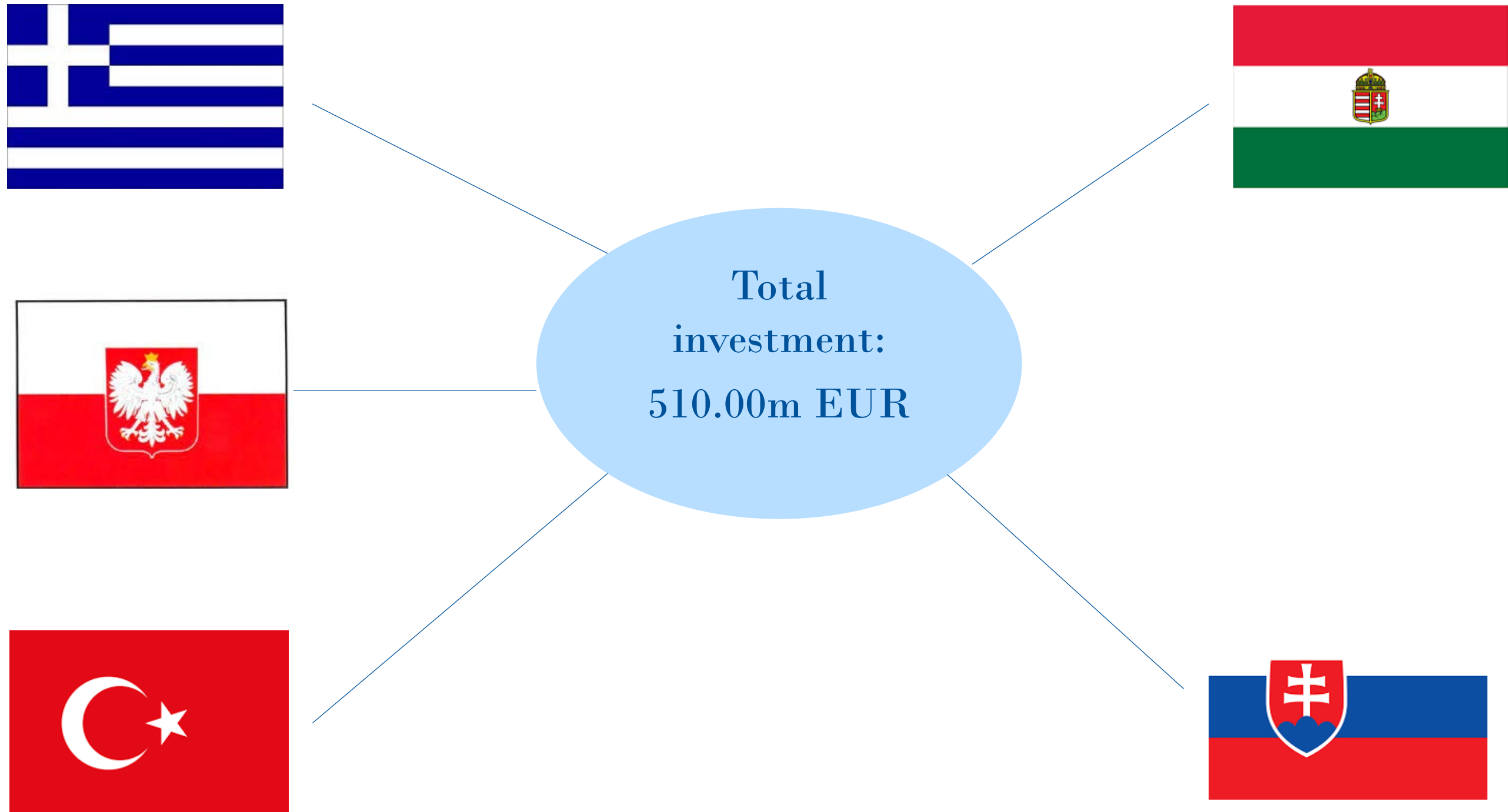
Lithuania

Latvia

Estonia

Pan Baltic Framework

EBRD Covered Bond Investments



The Pan Baltic Covered Bond Framework



European Bank
for Reconstruction and Development

Estonia

The Estonian Ministry of Finance announced in January 2016 that they were working on developing a covered bond law. This process has progressed and the draft law was developed by the Banking Association.

The EBRD has reviewed an earlier draft of the law and provided comments to the Ministry of Finance.

Lithuania

EBRD and the Ministry of Finance are currently working together on an updated draft Covered Bond and Securitisation law.



Latvia

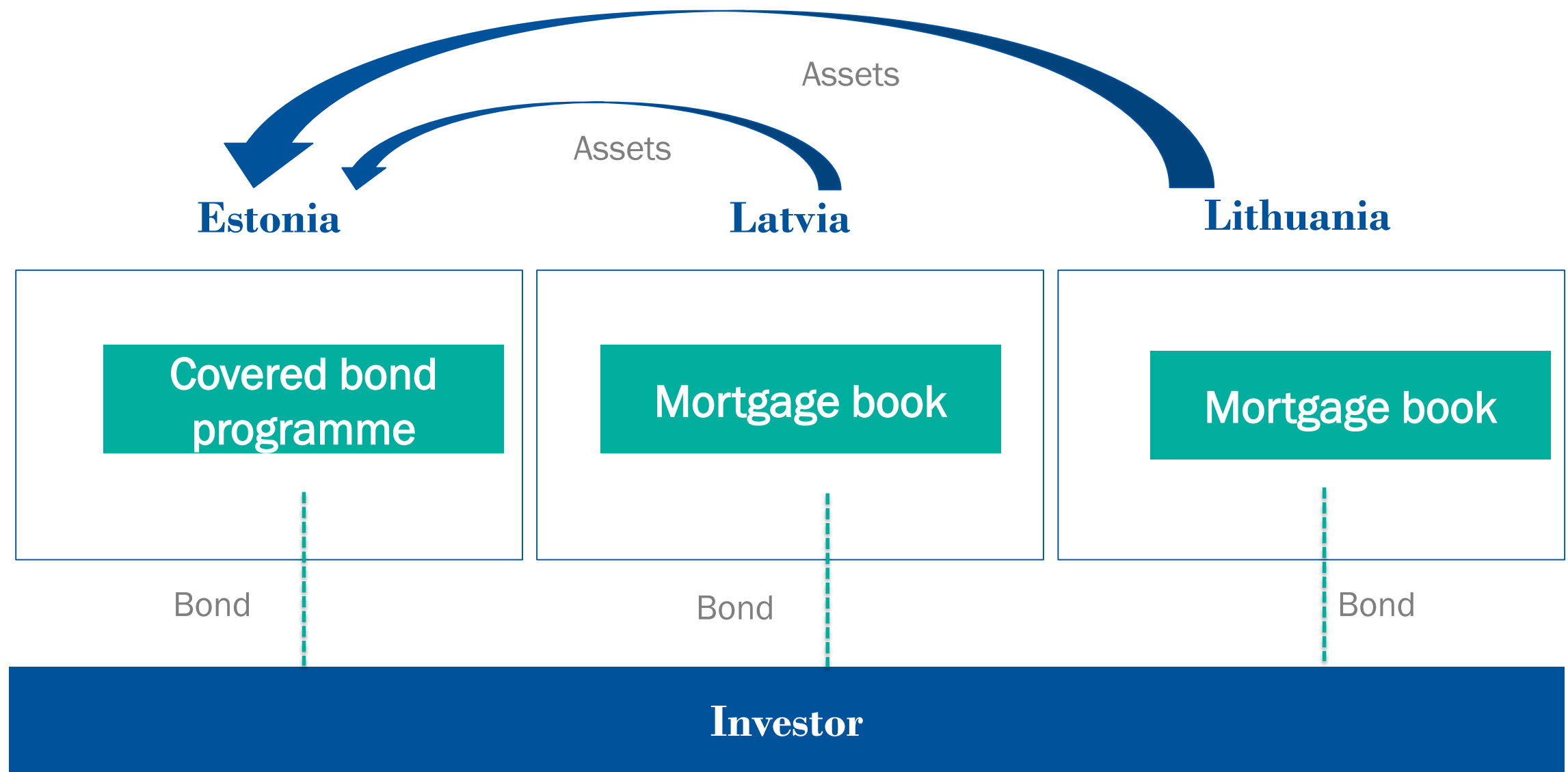
A law on mortgage bonds was passed in 1998 (with some subsequent amendments). The first bond was issued in 2004 but by 2011 no bonds remained outstanding. At no stage has the total aggregate of outstanding bonds exceeded €100mn.

In October 2017 the Ministries of Finance in Estonia, Latvia and Lithuania signed an MOU to promote the development of the Pan Baltic Capital Market. This project comes from the MOU and is the pilot project under the enhanced cooperation.

Structure: three equivalent laws –taking assets from all three countries



European Bank
for Reconstruction and Development



- For example: An Estonia based bank uses the Estonian covered bond law
- Estonian covered bond law allows Latvian and Lithuanian assets to be used
- Latvian and Lithuanian law facilitate the transfer of assets to Estonia



2018 Annual Meeting and Business Forum

Dead Sea, Jordan

8–10 MAY 2018

Register at:

www.ebrd.com/am

Programme to include:

- Discussion panels
- Investment Outlook Sessions
- Networking Events
- Associated Events



JORDAN 2018



European Bank
for Reconstruction and Development

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Third Panel Discussion: Covered Bonds in Emerging Markets: Focus on Eastern Europe

Panel Moderator

André Küüsvek
EBRD

Jacek Kubas
EBRD

Jakub Niesluchowski
PKO BH

Joost Beaumont
ABN AMRO

Richard Kemmish
Richard Kemmish Consulting

Matthias Melms
Nord/ LB



Housing Markets in the United States

Chrissa Pagitsas

Fannie Mae

Vancouver – 18 April 2018

Housing Markets in the U.S. and Fannie Mae Green Financing

European Covered Bond Council

Vancouver, B.C.

April 18, 2018





U.S. Housing Market and Fannie Mae



US Housing Demographics

	2017
Households (thousands)	119,272
Owners	76,170
Renters	43,102
Homeownership Rate	63.9%
Owner Households (thousands, 2016)	75,022
With Mortgages	47,295
Debt Free	27,727
Existing Home Sales (thousands)	5,536
New Homes Sales (thousands)	615
Median Existing Homes Sale Price	\$ 245,950
Median New Home Sale Price	\$ 323,200
Purchase Mortgage Originations (billions)	\$ 1,133
Refinance Originations (billions)	\$ 698



Fannie Mae Company Overview



- Government Sponsored Enterprise (GSE), chartered by U.S. Congress in 1938 to support America's housing market

- We do not lend directly to consumers

- We operate in the secondary mortgage market, in two business lines

- Single-Family (1-4 residential units)
- Multifamily (5+ residential units)

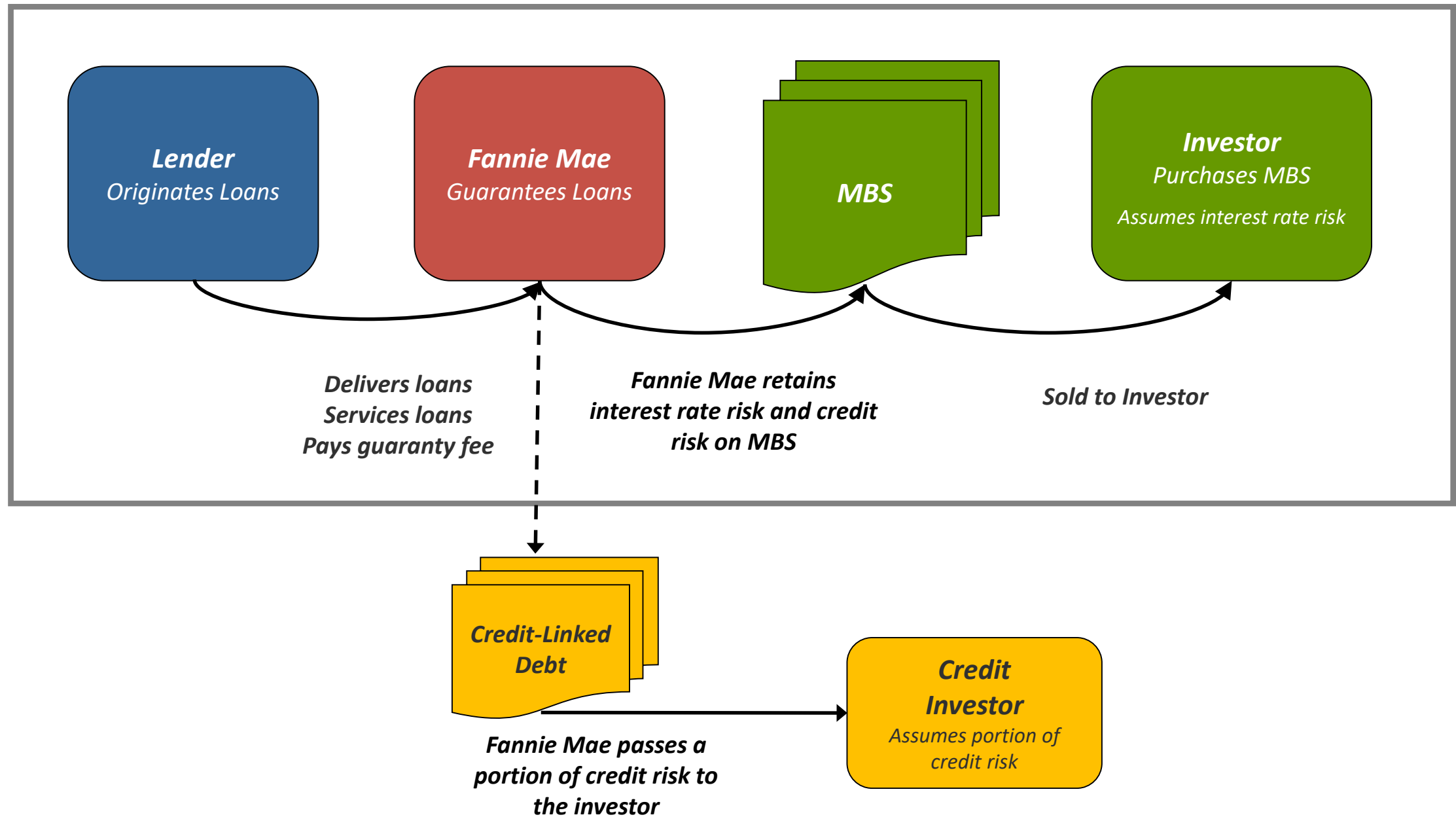
- Support the liquidity and stability of the U.S. mortgage market primarily through purchasing and securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities (MBS) that we guarantee



Our mission is to support the liquidity and stability of the U.S. mortgage market.

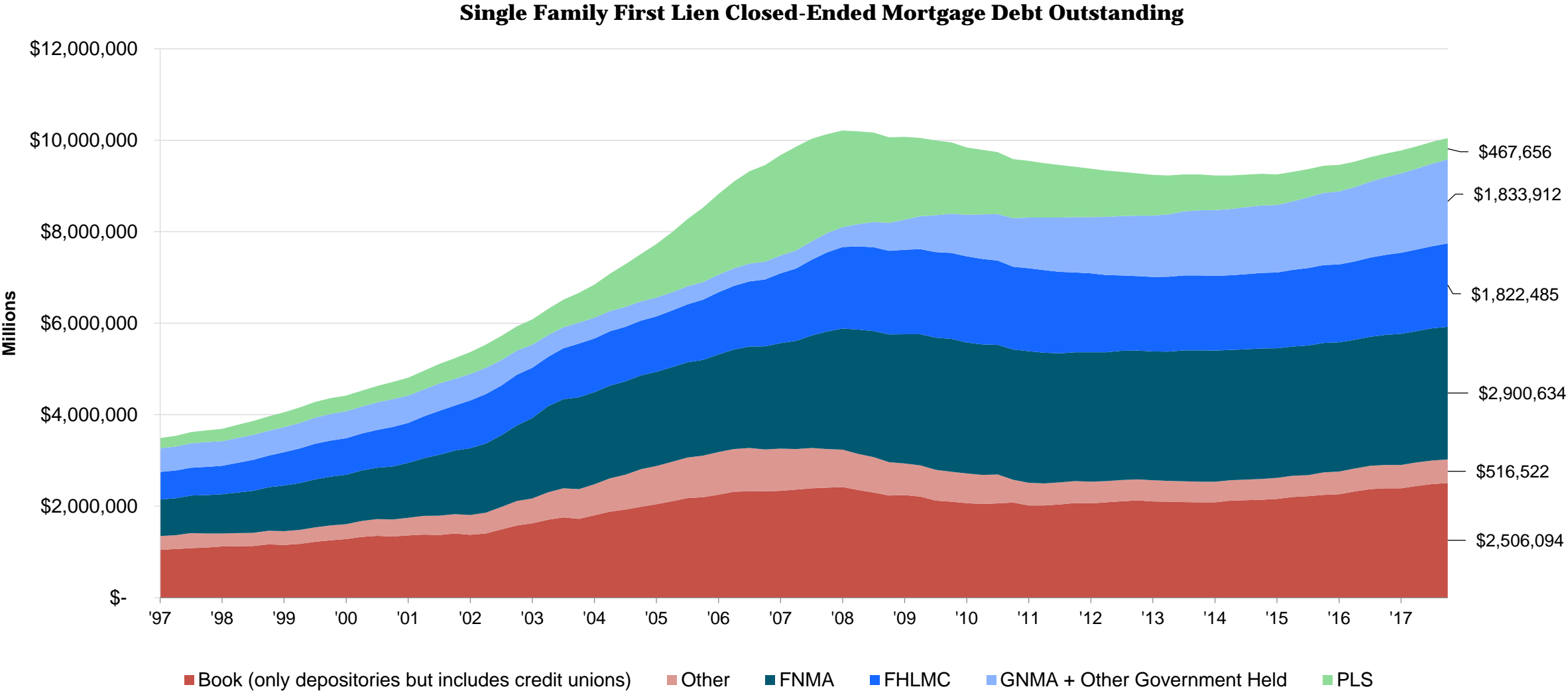


Fannie Mae Credit Guaranty Business Model





Mortgage-Backed Securities Make Up Majority of Single-Family Residential Mortgage Debt



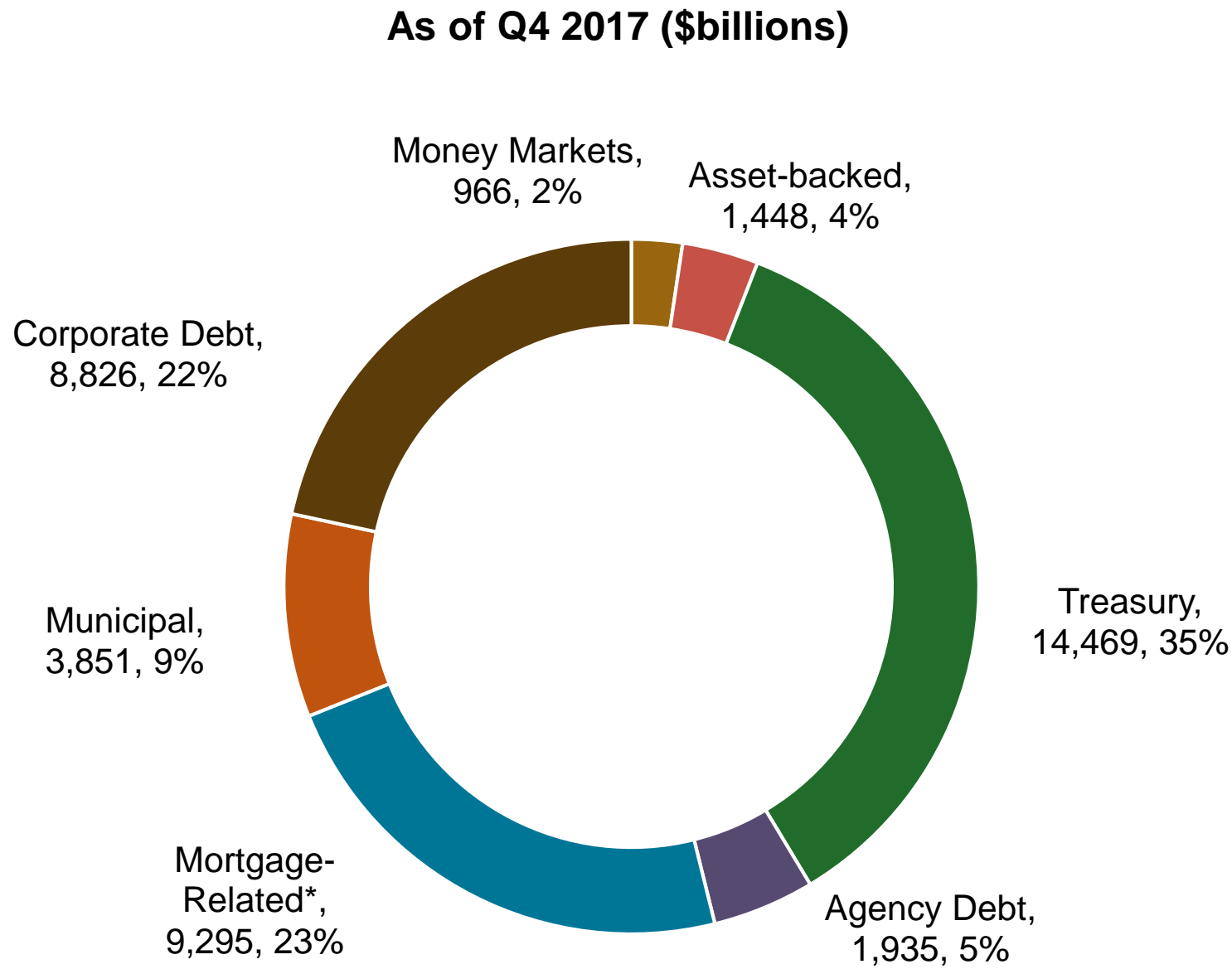
*Whole loans held for investment on GSE balance sheets are included in the MBS figures



US Fixed Income Market



Overview of U.S. Fixed Income Asset Classes



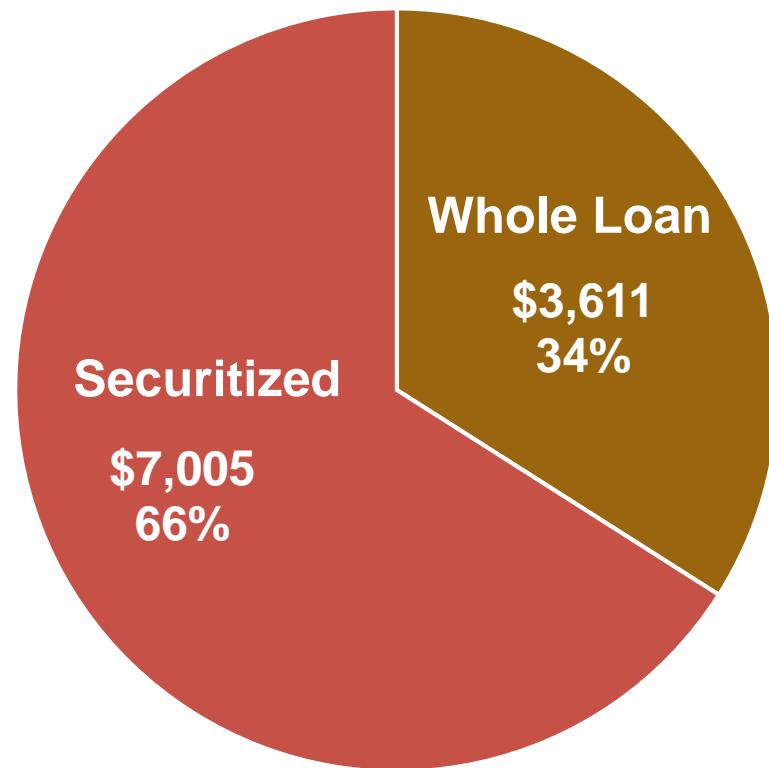
*Includes Agency MBS (Fannie Mae, Freddie Mac, Ginnie Mae) (\$6,924.3), Agency CMO (\$1,080.8), Non-Agency RMBS (\$782.6), Non-Agency CMBS (\$507.7)

Source: SIFMA



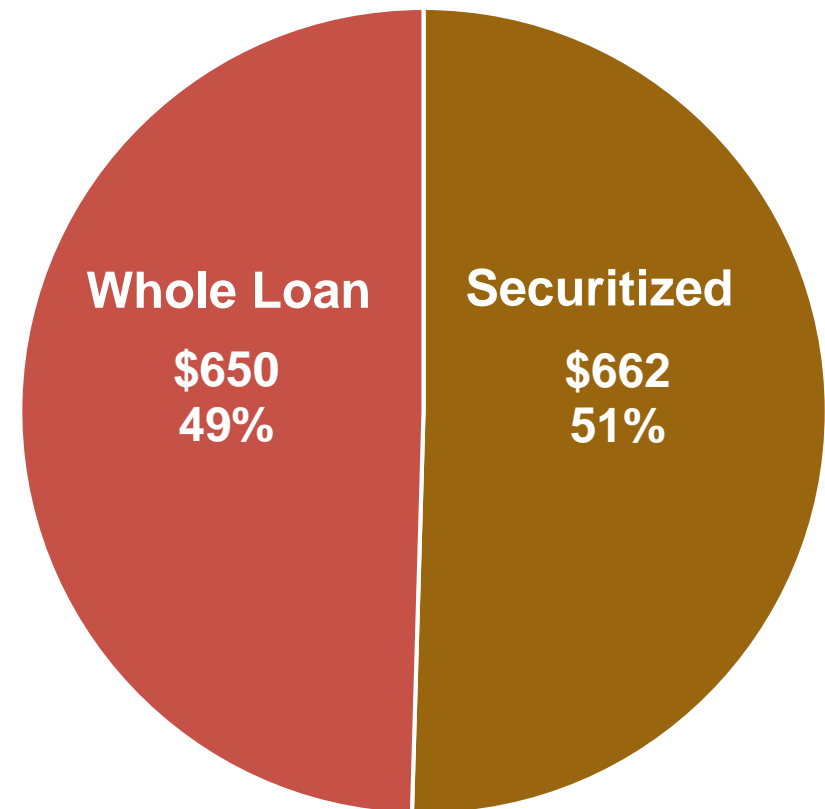
Outstanding Residential Real Estate Debt

**Single-Family Home Mortgage Debt,
(\$Billions) Q4 2017**



Total: \$10,616 Billion

**Multifamily Home Mortgage Debt,
(\$Billions) Q4 2017**



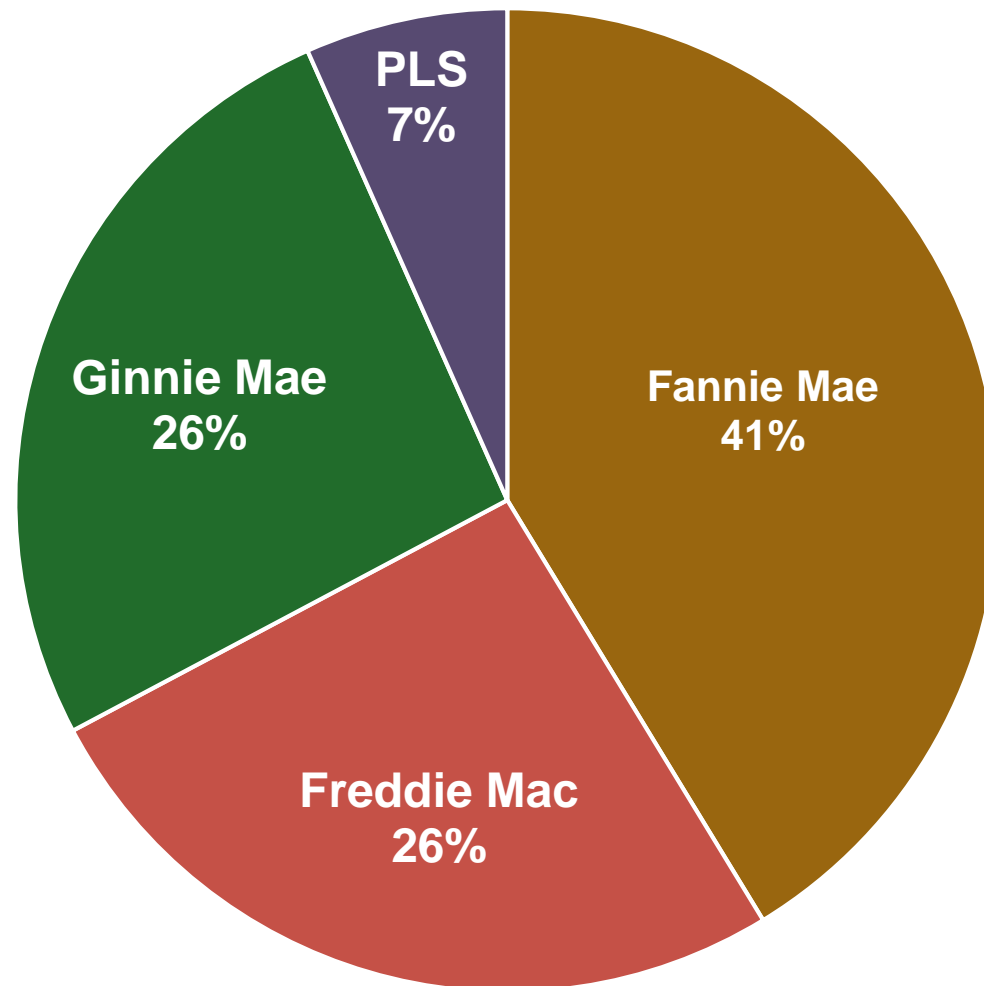
Total: \$1,311 Billion

*Whole loans held on GSE balance sheets are included in securitized figure.



Securitized SF First Lien Closed End Residential Mortgage Debt

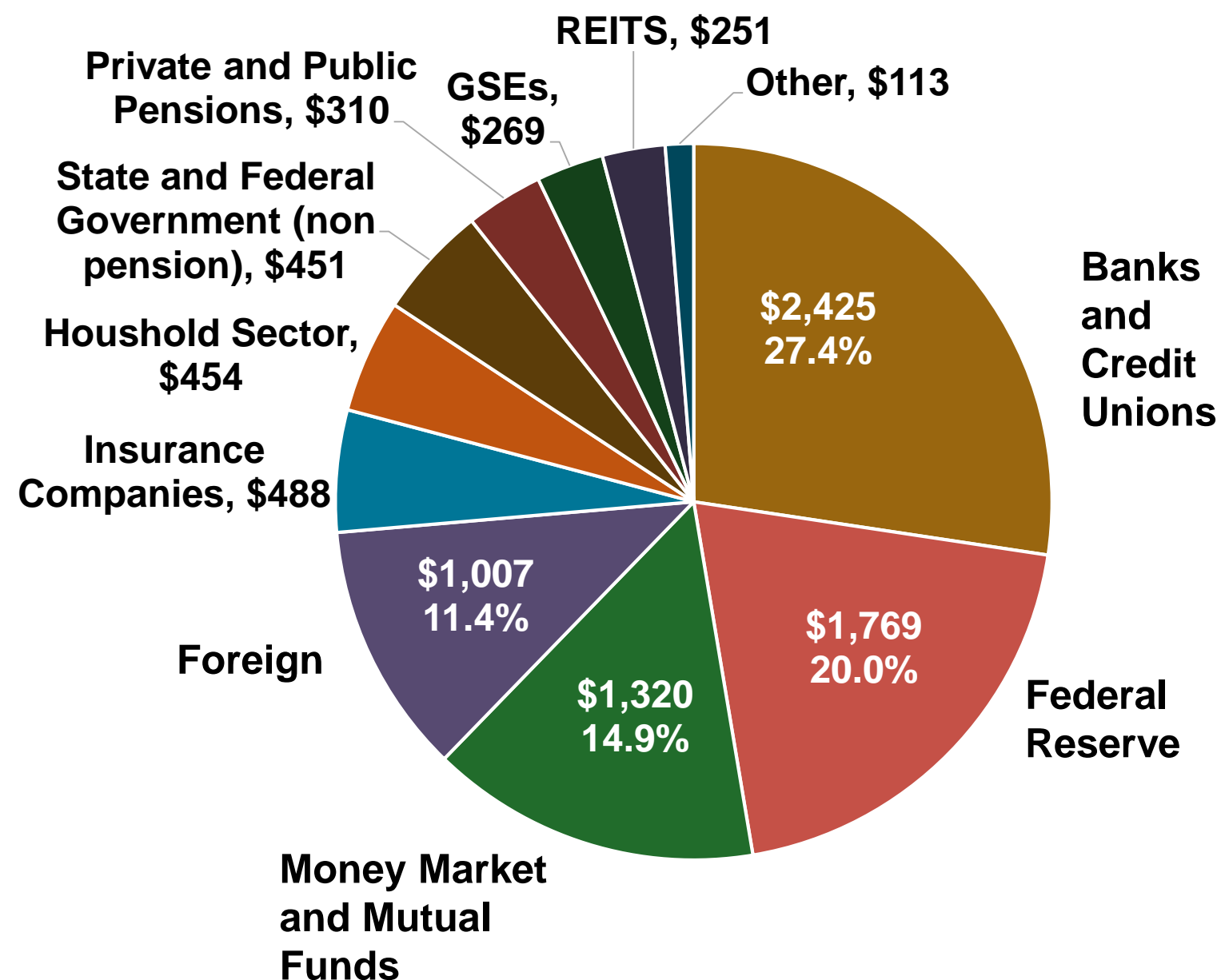
Securitized* SF First Lien Mortgage Debt (\$Trillions, Q4 2017)



Total: \$7.02 Trillion



Agency SF MBS by Investor Type*

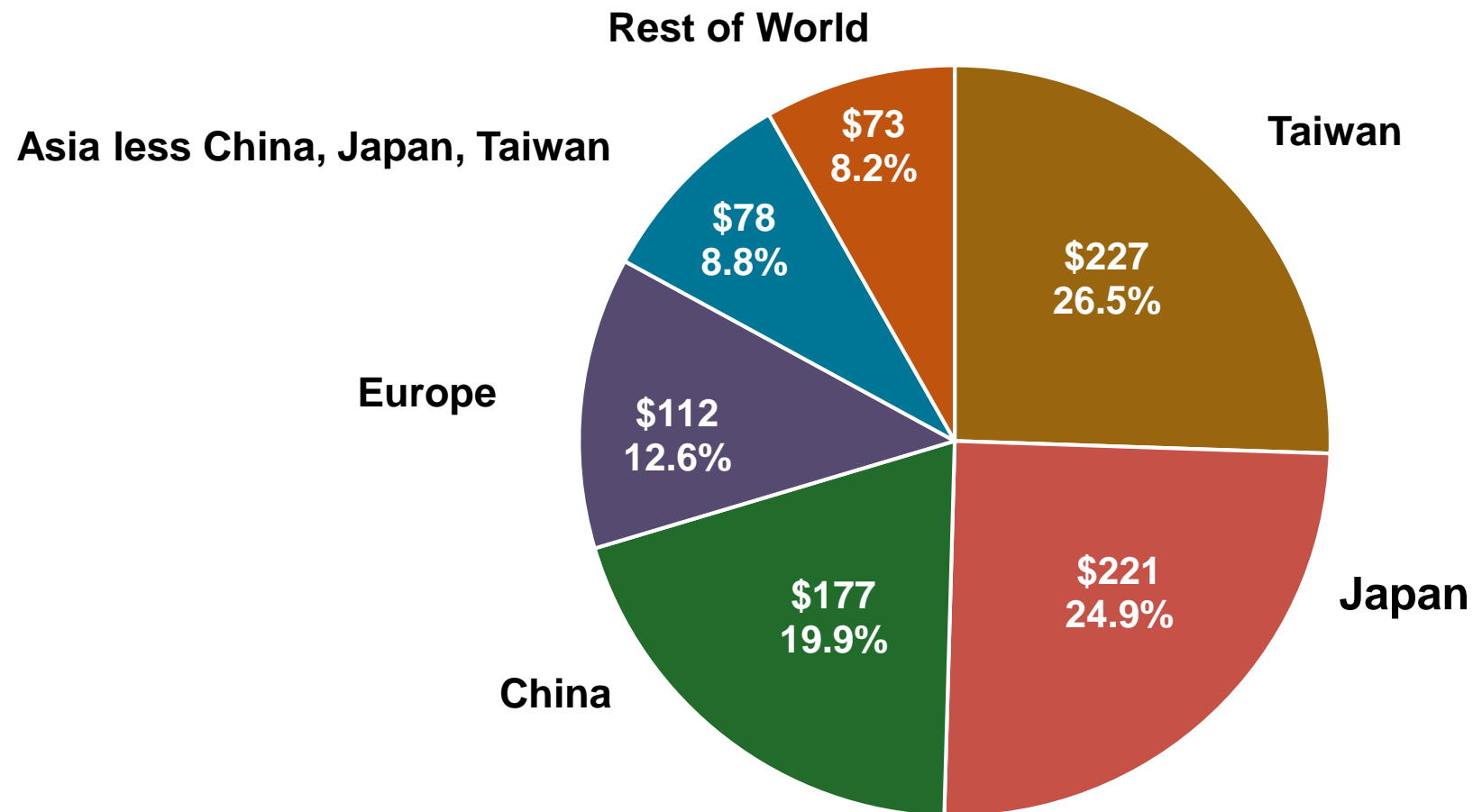


*Also includes non-MBS Agency debt Securities



Foreign Investor Holdings of US Agency SF and MF MBS By Country

Agency MBS Holdings (\$Billions, Q2 2017)



Total: \$888 Billion
of which \$382 Billion held by official institutions



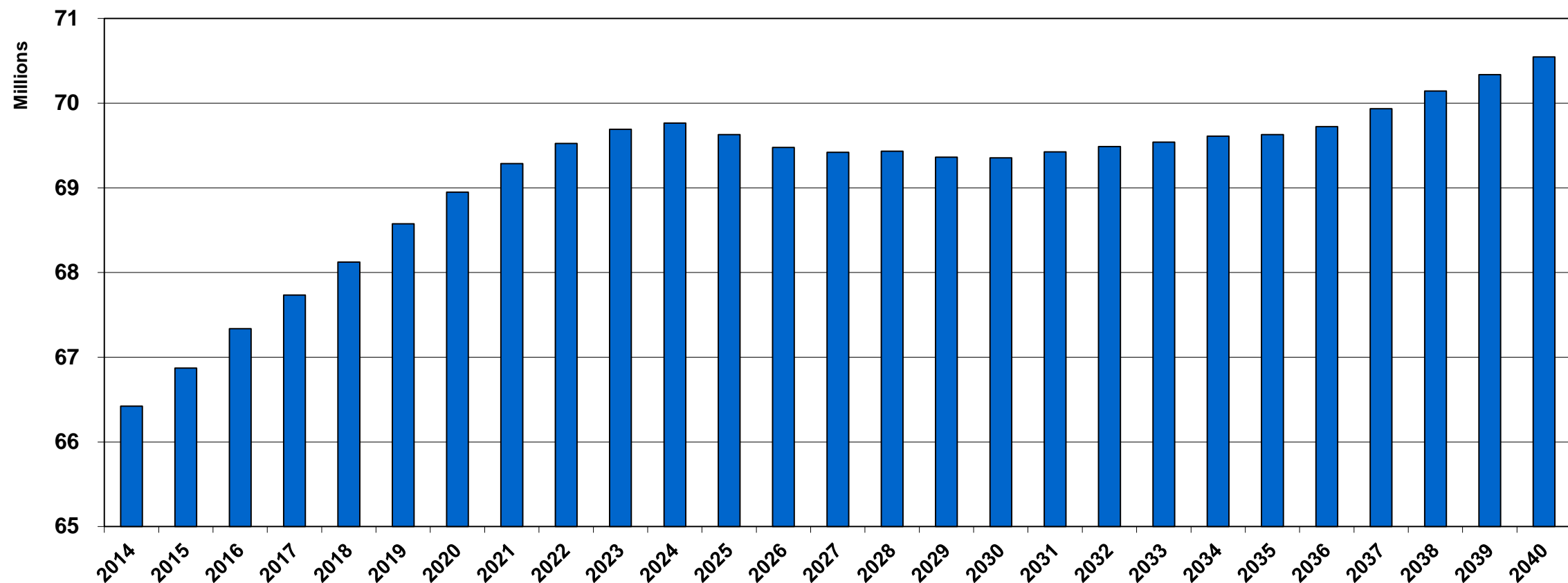
Multifamily Market Outlook



Real Estate Fundamentals: Demographics Favorable

Demographics are in Multifamily's favor over the next few years, especially in the younger aged cohort...

U.S. Renter Population: Age 20-34 Cohort



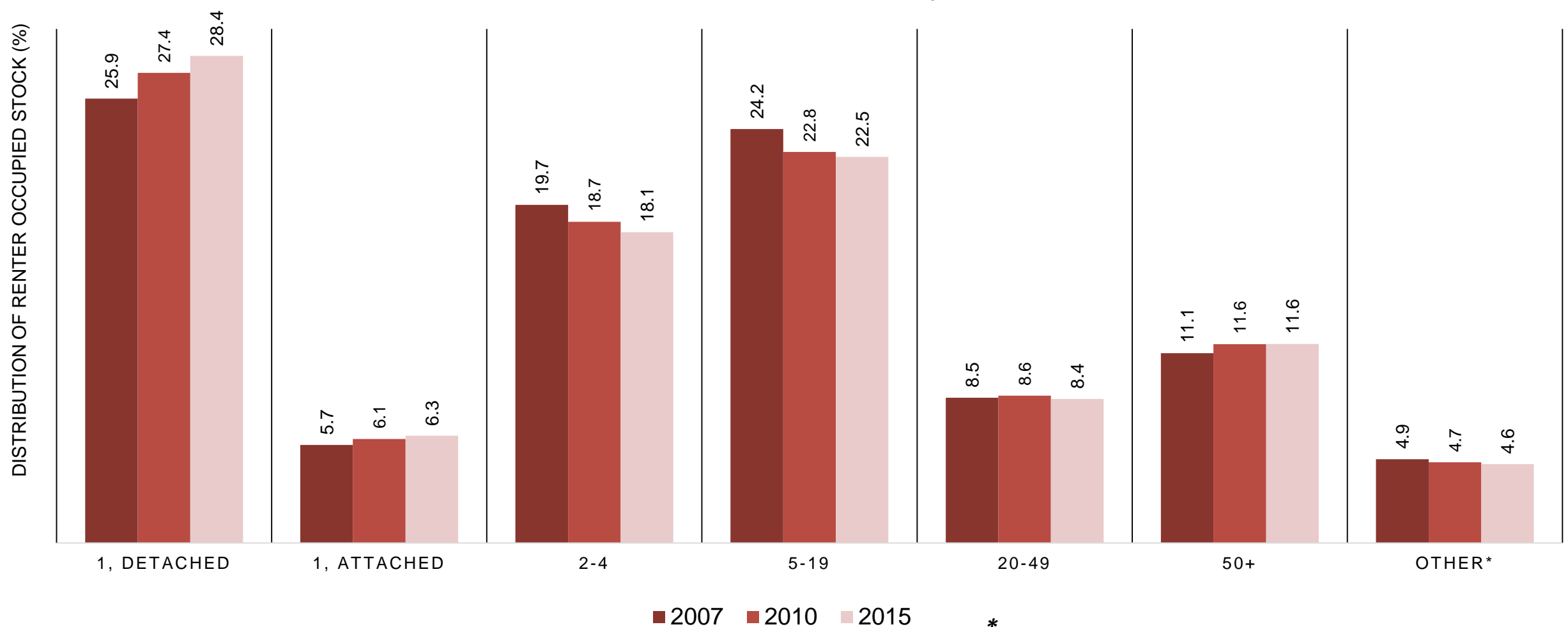
Source: U.S. Census, Fannie Mae



Real Estate Fundamentals: Demographics Favorable

...and even though there are more 1-4 unit rentals than 5+ unit rentals.

U.S. Renter Occupied Stock by Structure



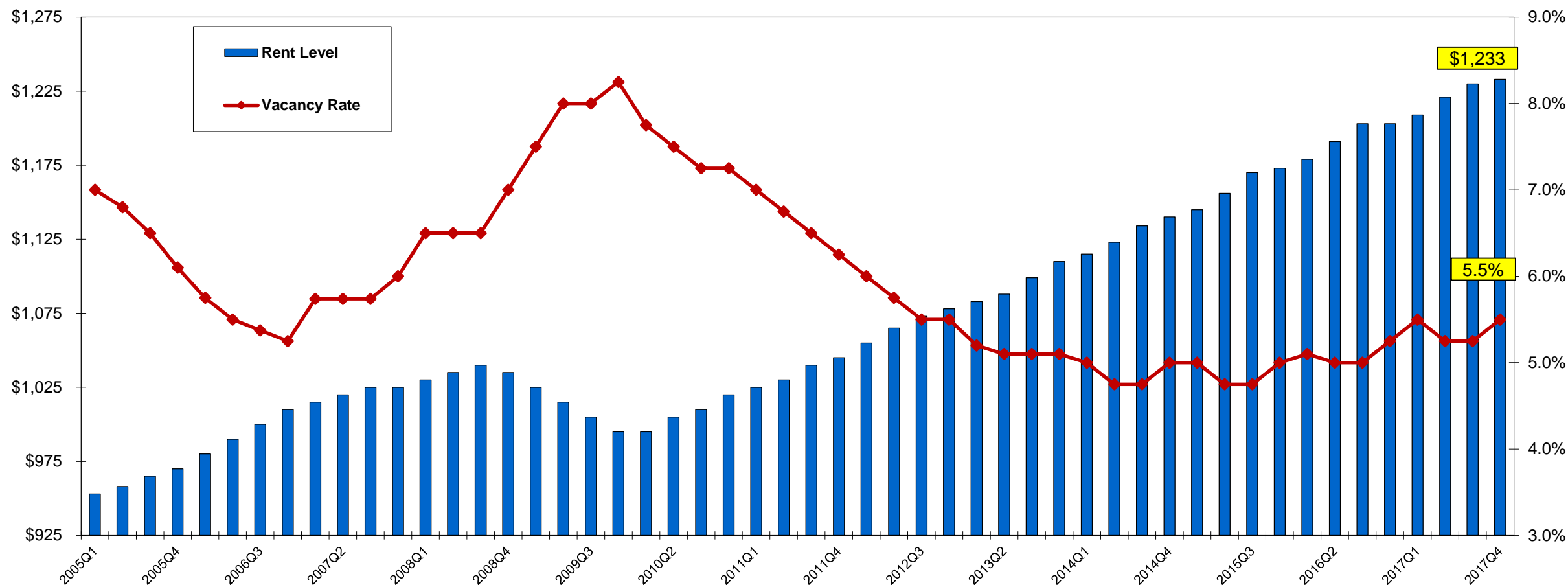
* Other includes manufactured/mobile homes, boats, RVs, vans etc.



Real Estate Fundamentals: Continued Demand

National estimated multifamily vacancy rates are slowly inching up...

Estimated National Rent Level and Vacancy Rate



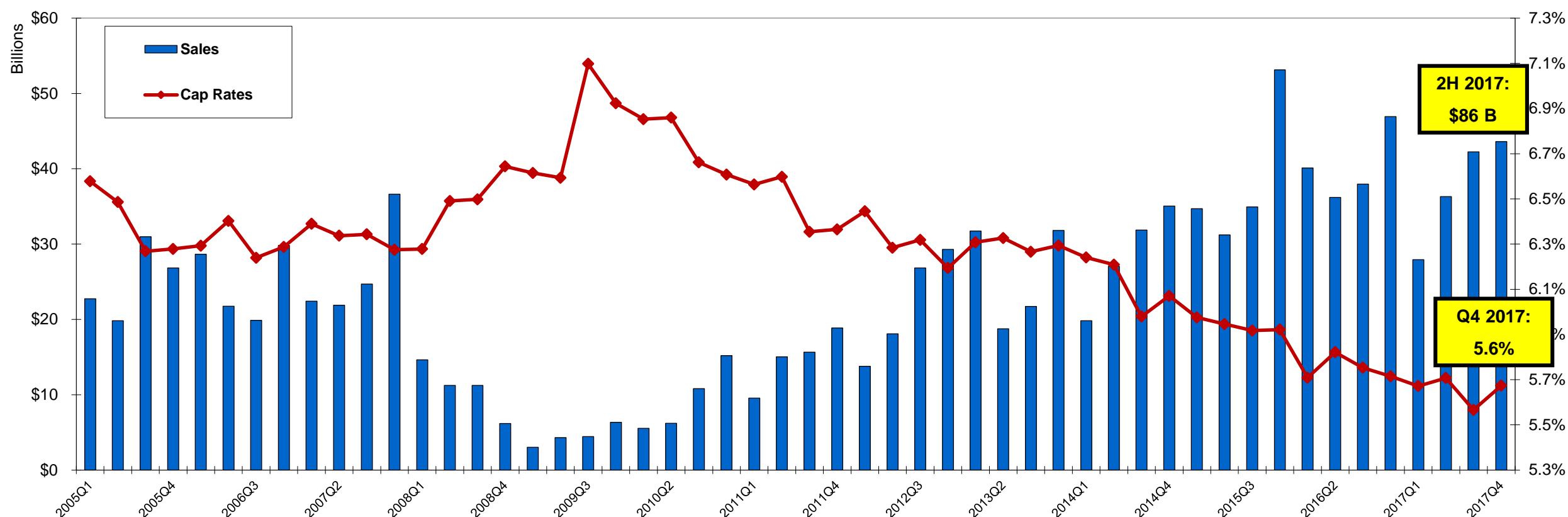
Source: Fannie Mae Multifamily Economics and Market Research Estimates



Real Estate Fundamentals: Multifamily Investment

...and investors are being more selective about purchasing multifamily buildings.

National Apartment Sales Volume and Cap Rates



Source: Real Capital Analytics

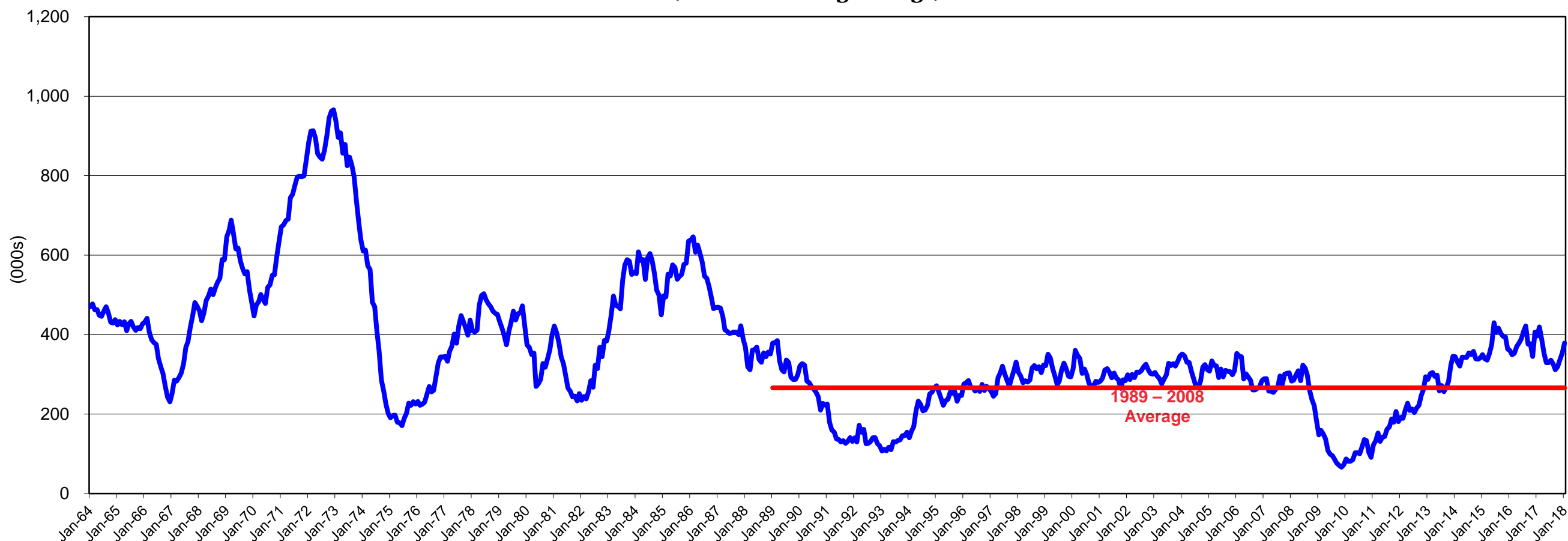


Real Estate Fundamentals: Supply and Demand

Multifamily starts remain slightly ahead of *recent* historic average levels.

Multifamily (5+ units) Starts

(3 month moving average)





Fannie Mae Green Financing



What is Fannie Mae Multifamily Green Financing?

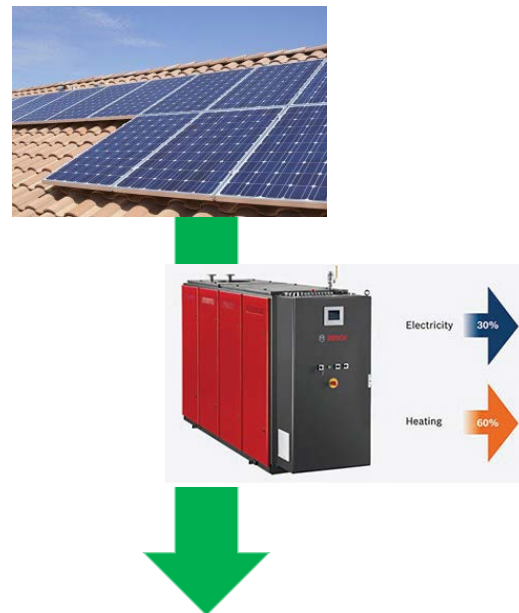
Fannie Mae offers Green Mortgage Financing for:

Energy and Water Efficiency



Efficiency measures lower energy and water expenses for owner and tenants

Solar & Combined Heat/Power Systems



Solar systems generate Solar Renewable Energy Credits (SRECs) for owner and potentially for tenants

Green Building Certifications

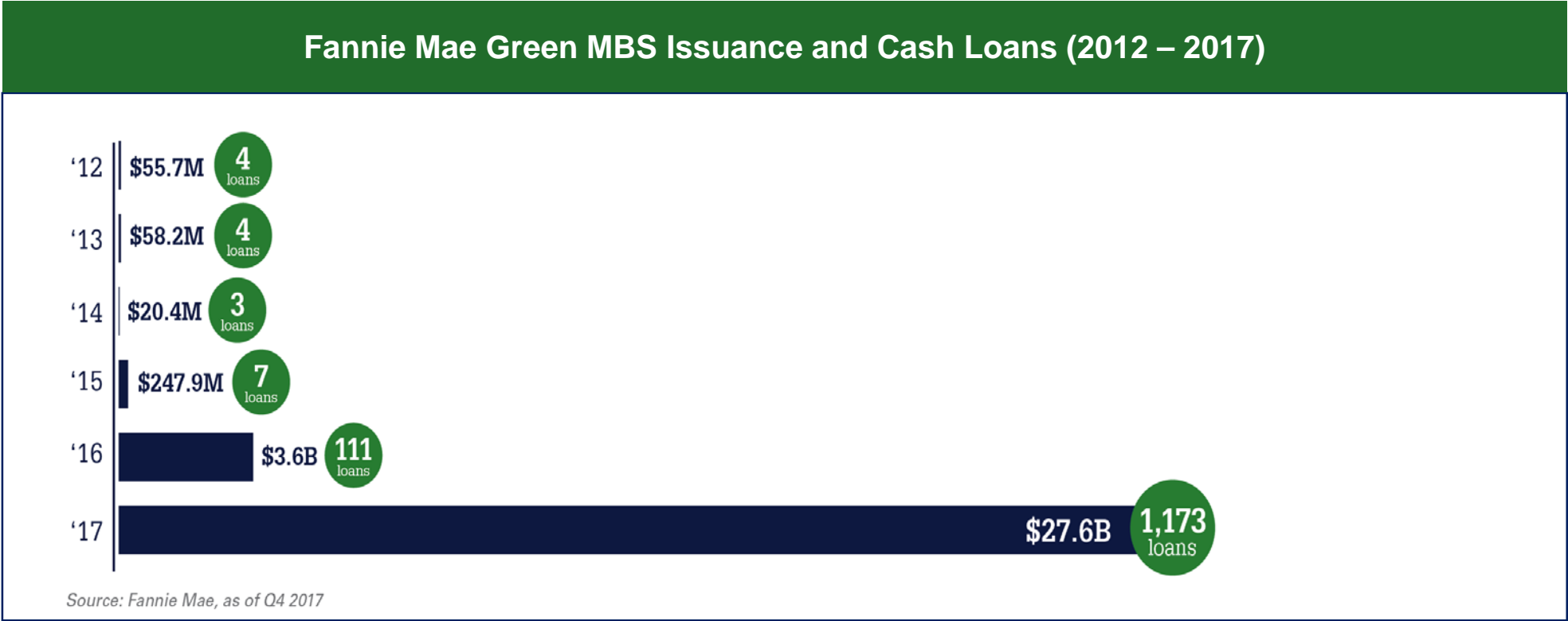


Green Building Certifications may result in lower operations costs



Growth of Fannie Mae Green Financing

Fannie Mae Green product volumes increased in 2017 as the program developed, incentives, were aligned and more borrowers were attracted to the products.



**Included in the Bloomberg Barclays MSCI Green Bond Index*



From an Initiative to a Business, Fannie Mae has led Green Financing



- Piloted Green Financing products
- Launched Green MBS
- Developed ENERGY STAR® Score for Multifamily
- Developed High Performance Building Report scope

- Issued \$27.6 billion in Green MBS
- Securitized \$3.4 billion in Green GeMS REMICs
- Offers three Green Mortgage Loan Products
- Largest issuer of Green Bonds globally
- Inclusion in Bloomberg Barclay's MSCI Green Bond Index



Positive Impact of Fannie Mae's Green Rewards Portfolio

Per the Triple Bottom Line, Green Rewards loans through YE 2017:



Financial

- Reduce utility bills by \$53 million across portfolio
- Save \$49,000 on average energy and water cost reduction annually per property



Social

- Provide more than 248,000 units improved, more comfortable homes
- Save \$131 on average annually on energy and water cost reduction per family



Environmental

- Save electricity to power 80 million cell phones
- Save fuel to heat 27 million showers
- Save water to fill 42 billion glasses



Thank you

Contact info:

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Director, Fannie Mae Multifamily
chrissa_pagitsas@fanniemae.com



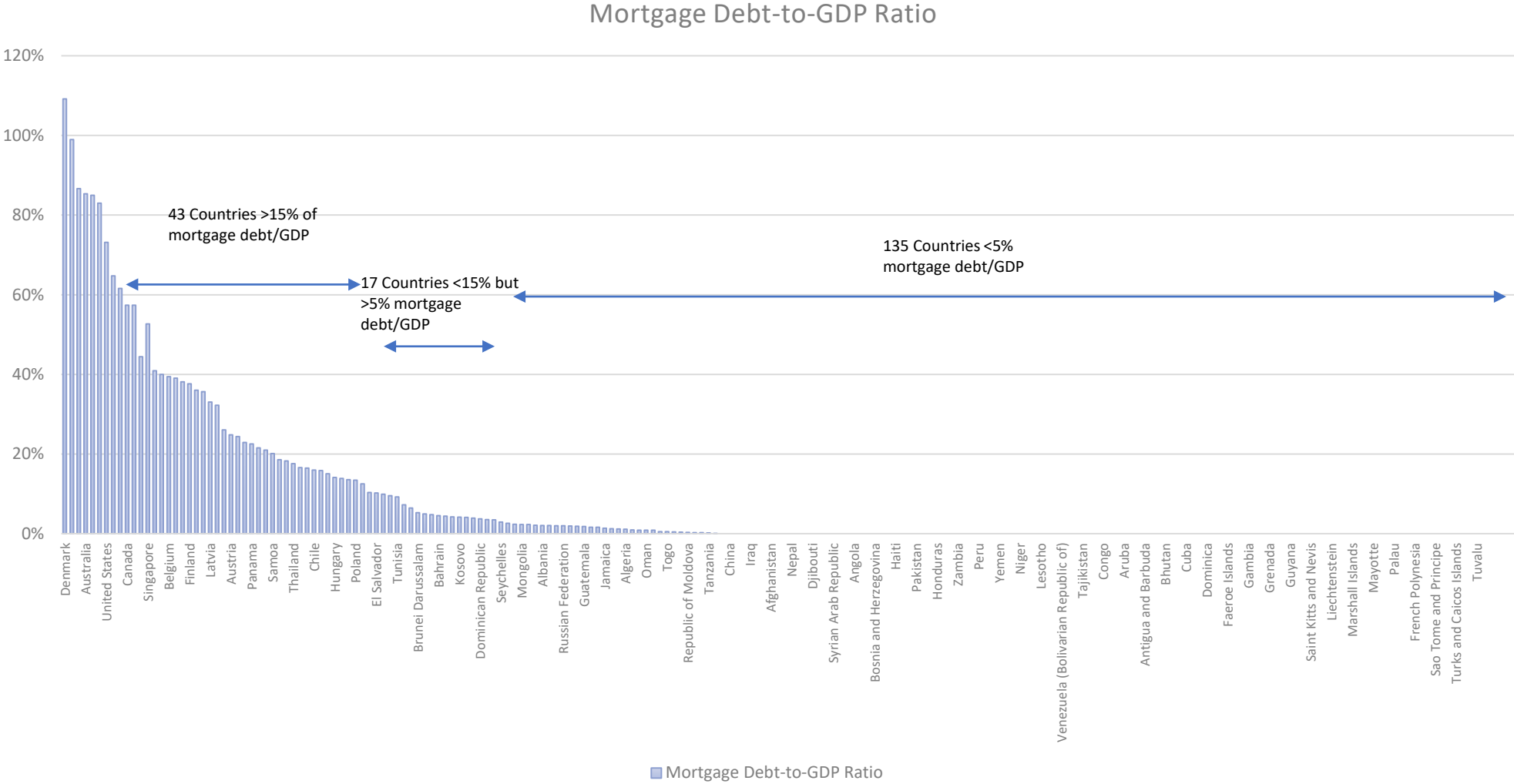
Introductory Speech

Loïc Chiquier

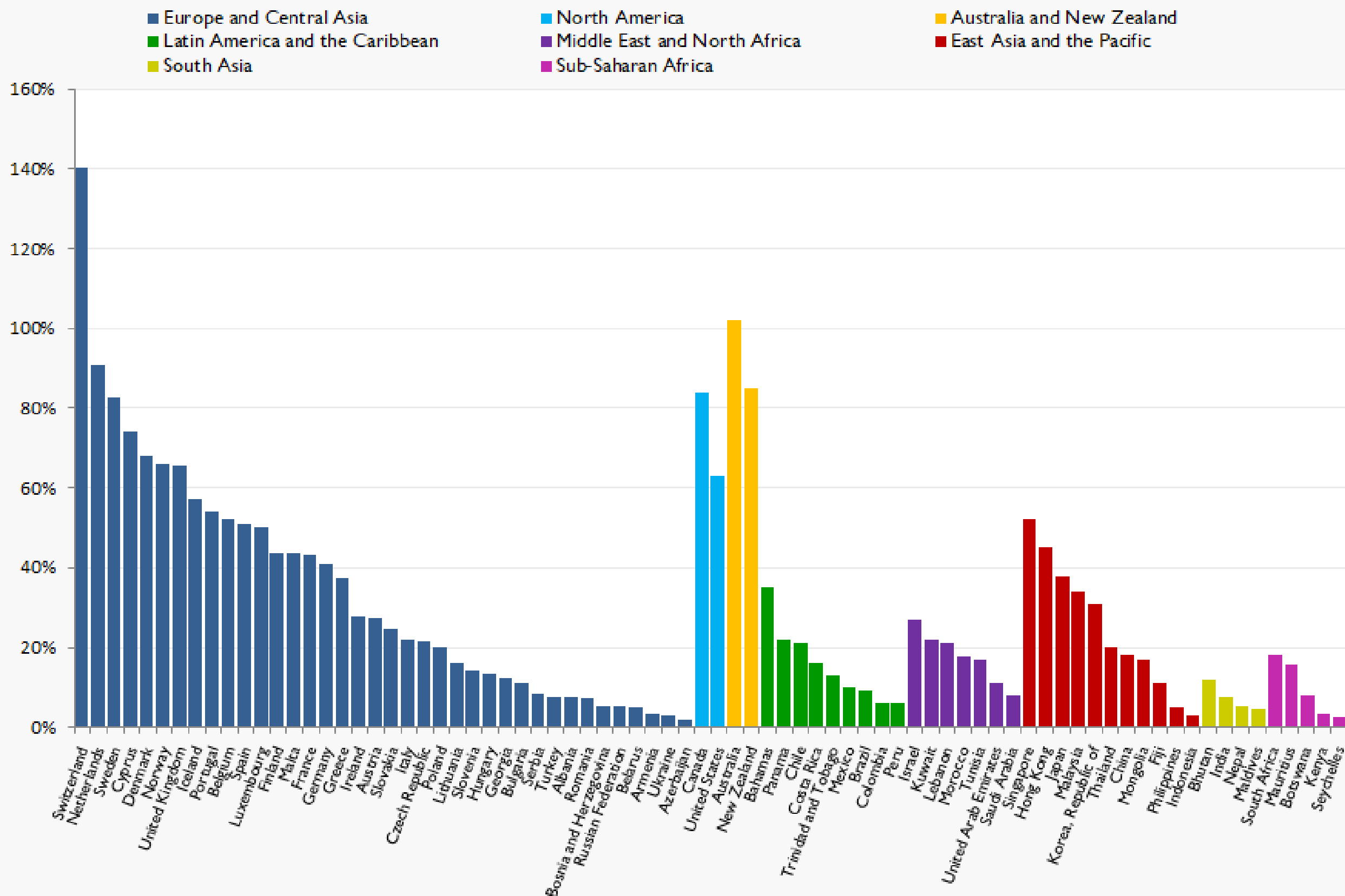
World Bank Group

Vancouver – 18 April 2018

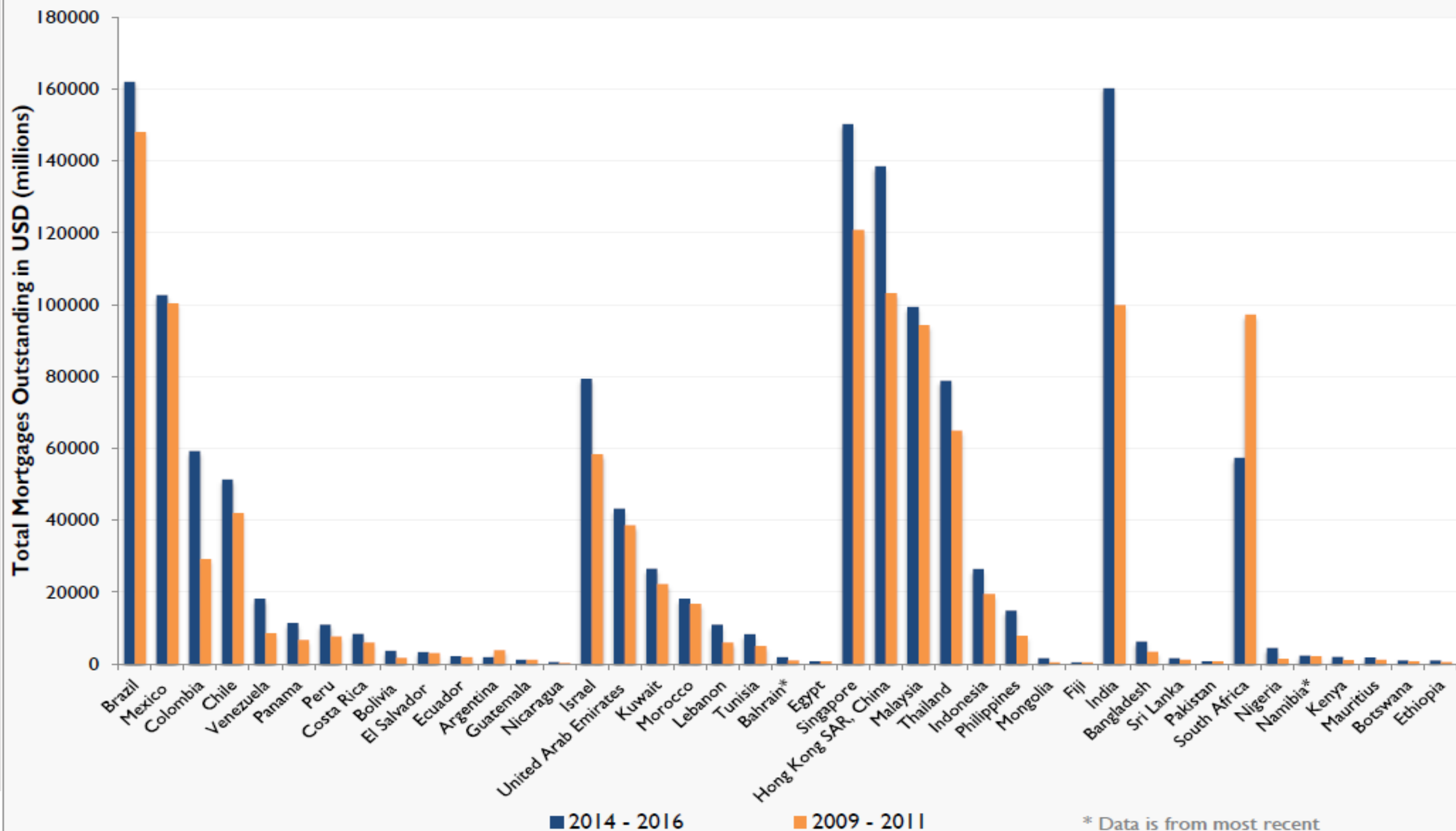
Depth of housing finance markets: a contrasted picture



Mortgages Outstanding / GDP as a % for Selected Countries (2014 - 2016)



Total Mortgages Outstanding in USD (millions)



Source: www.hofinet.org

* Data is from most recent year prior to 2014 or 2009

Fourth Panel Discussion: Covered Bonds in Emerging Markets - Part II: Focus on Latin America, Eurasia & Africa

Panel Moderator

***Loïc Chiquier
World Bank***

Masashi Niimura
Japan Housing Finance Agency

Filipe Pontual
ABECIP

Cristina Costa
Société Générale

Antonio Farina
S&P Global Ratings Ltd

Vito Natale
DBRS Ratings Ltd



Update on the European Central Bank's (ECB) Covered Bond Purchase Programme (CBPP) 3

Ad Visser

European Central Bank (ECB)

Vancouver – 18 April 2018

Ad Visser

Head of Financial Markets and Collateral
Section

Directorate General Market Operations

Covered Bond markets from the ECB perspective

European Cover Bond Council plenary
meeting

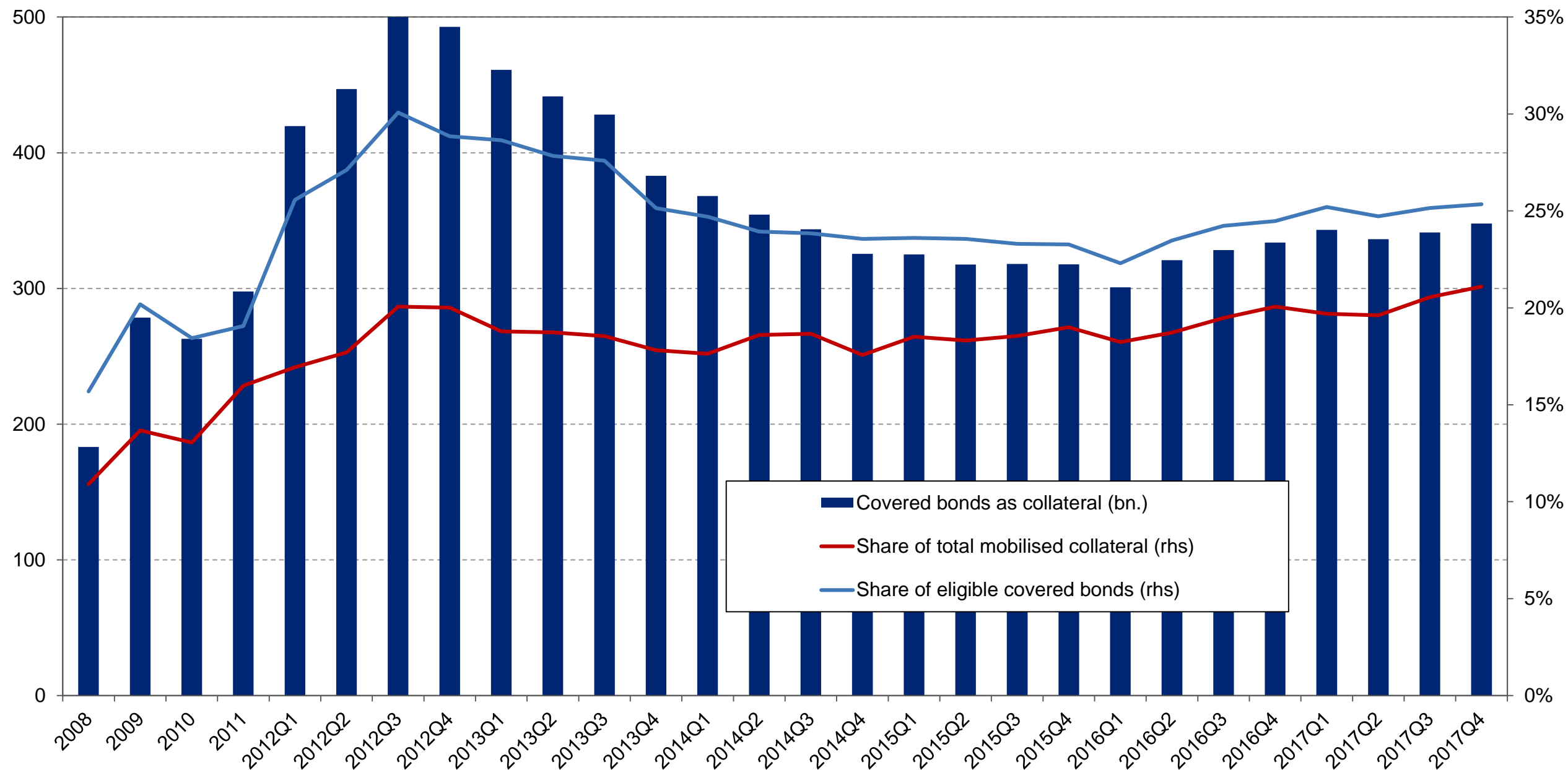
Vancouver

18 April 2018.

The views expressed are those of the presenter and do not necessarily reflect those of the ECB

The long standing and historical role of covered bonds in Europe as a funding mechanism for credit institutions is well recognised.

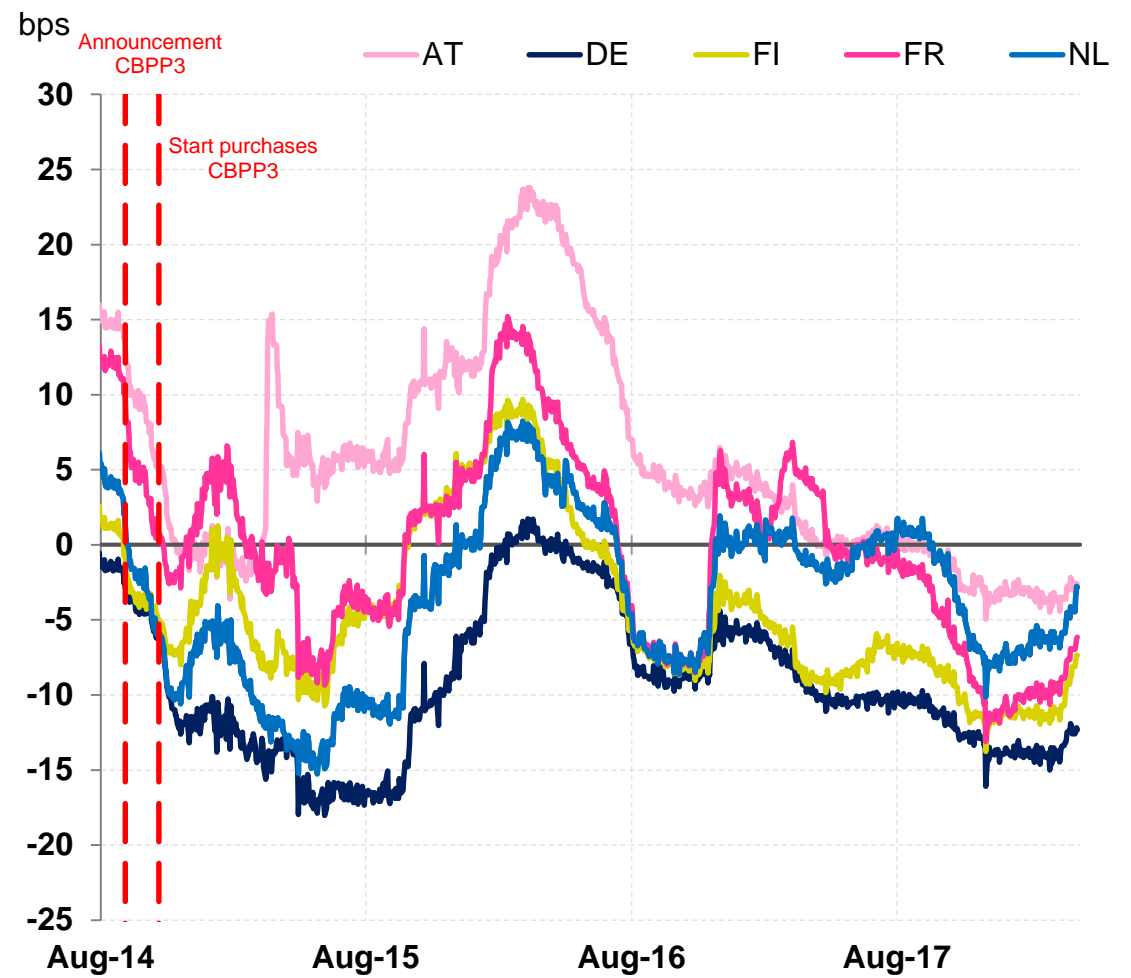
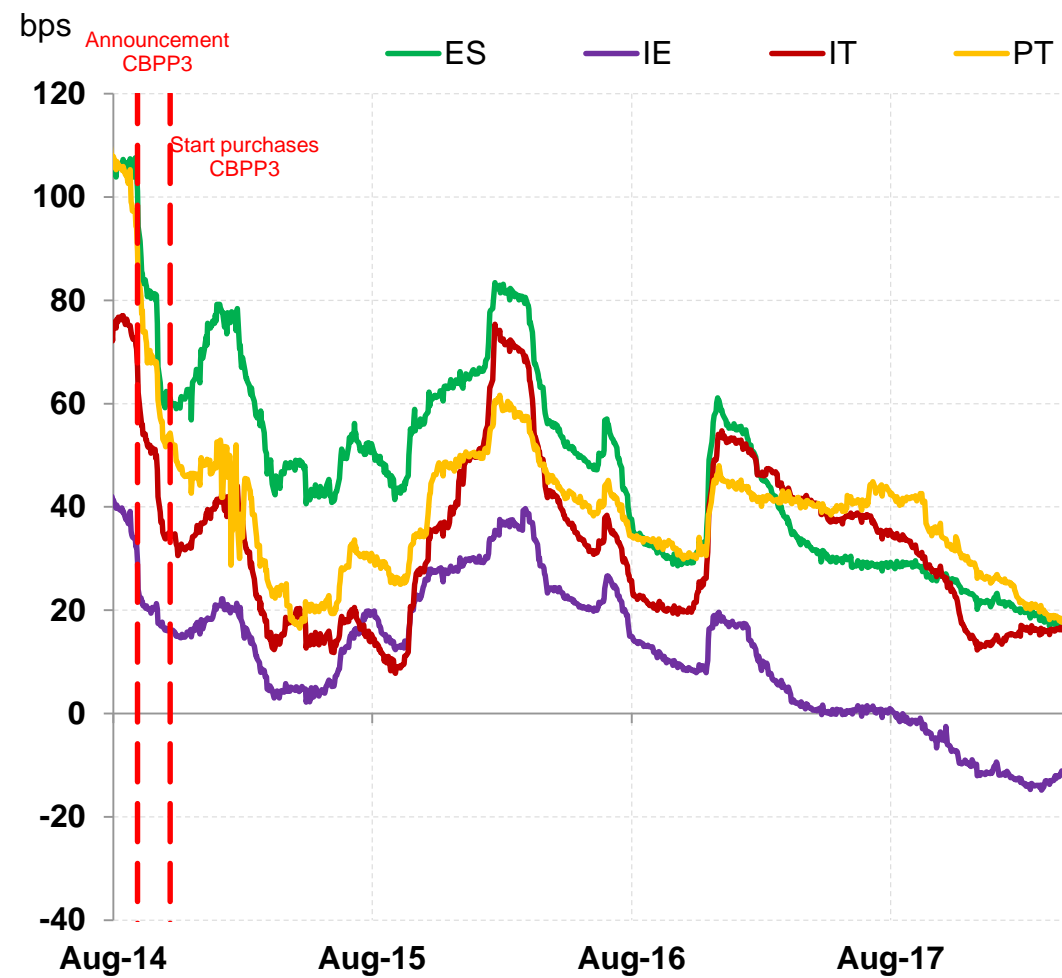
- Among the largest private debt markets in Europe;
- Contributes to the bouquet of funding choices of banks;
- Transforms illiquid assets to liquid and tradable securities;
- Broad investor base, both in terms of geography and across sectors;
- Important in supporting long term economic growth;
- Well recognised in financial regulations and other frameworks
 - Preferential treatment in the CRR, LCR, exempted from bail-in, ECB collateral eligible
- Highly relevant for the ECB in many respects



On 8 February 2018 ECB announced that from 16 April 2018 on:

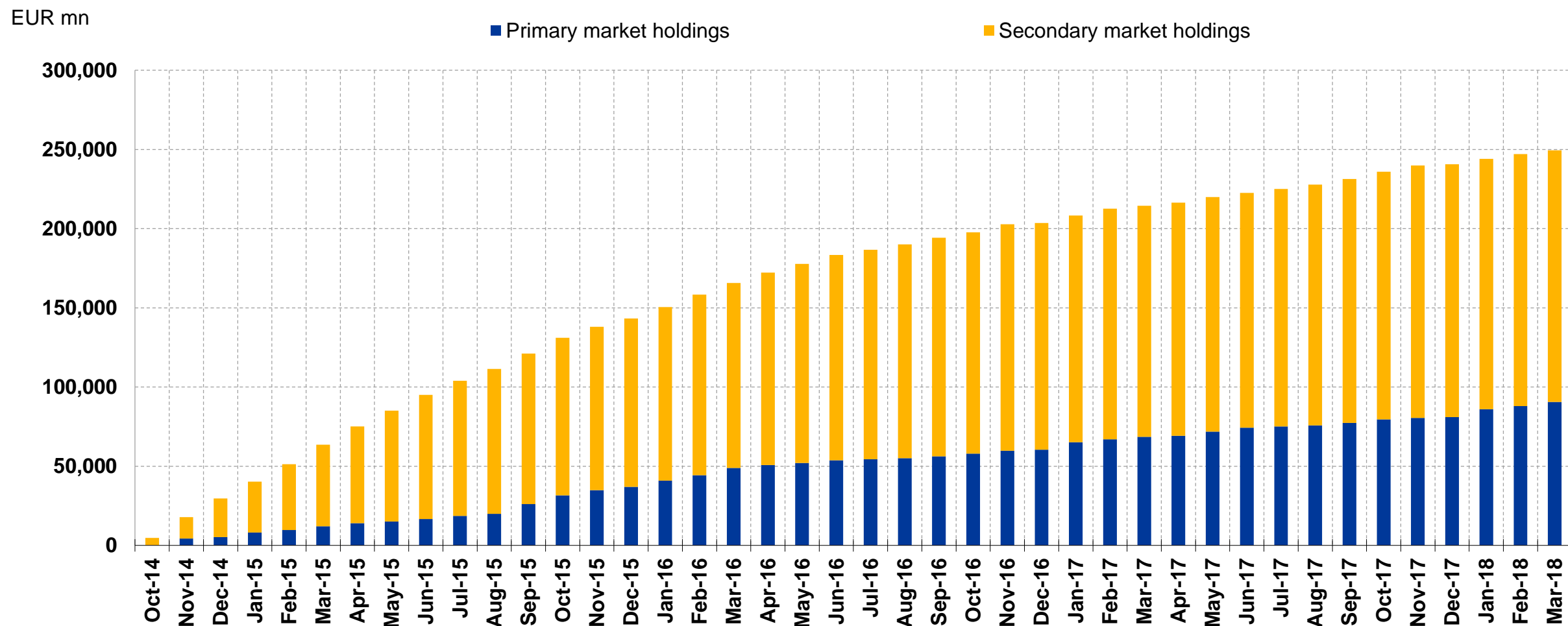
- For haircut purposes the residual maturity for own-use covered bonds is defined as the maximum legal maturity, taking into account any extension rights for principal repayments contained in their terms and conditions.
- The Eurosystem may suspend, limit or exclude, on the grounds of prudence, access to monetary policy operations by counterparties that channel Eurosystem liquidity to another entity that belongs to the same banking “group” where the entity receiving such liquidity is (i) a non-eligible wind-down entity or (ii) subject to a discretionary measure on the grounds of prudence.

Covered bond asset swap spreads



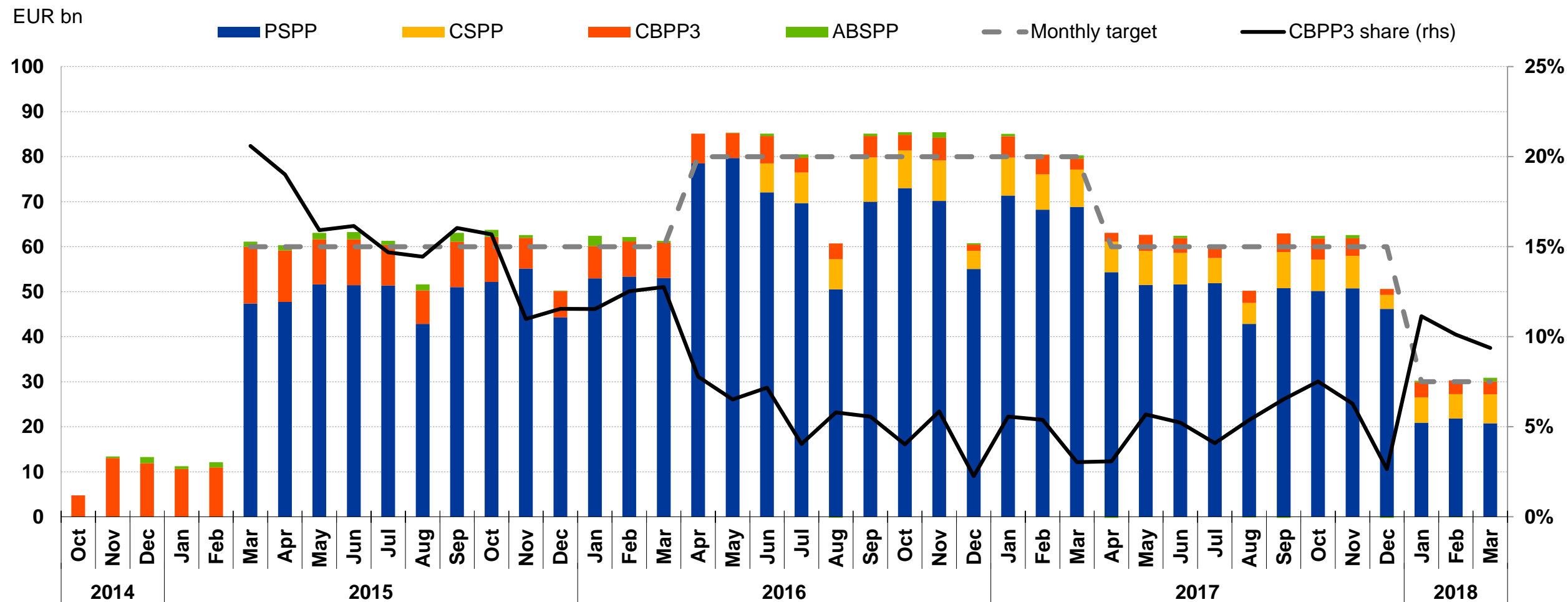
Source: Markit iBoxx indices. Last observation: 6 April 2018.

Monthly progress of CBPP3 purchases



Source: ECB website. Last observation: 31 March 2018.
 Notes: Figures net of redemptions and at amortised cost.

Flexibility in monthly purchase amounts



Source: ECB website. Last observation: 31 March 2018.

Notes: Figures at amortised cost.

Proposals on covered bond directive and CRR amendments published on 12 March 2018

- Too early to comment in substance now.
- ECB opinion to be published in the near future.

In 2016 ECB already noted:

- ECB in favour of high quality and transparent EU covered bond market, potential for harmonisation of some standards and practices across EU
- ECB sees merits in enhancements to covered bond frameworks that promote further harmonisation of national regimes
- In the medium to long term the ECB sees merit in the notion of a comprehensive covered bond legal framework stipulating high standards

Thank you for your attention!

Fifth Panel Discussion: Covered Bonds Beyond Quantitative Easing (QE)

Panel Moderator

***Bill Thornhill
Global Capital***

Steffen Dahmer
J.P. Morgan & Chairman of ECBC
Market Related Issues Working Group

Hélène Heberlein
Fitch Ratings

Michael McCormick
Credit Suisse

David Jefferds
DealVector

Thomas Cohrs
Nord/LB



CLOSING REMARKS

Luca BERTALOT

Secretary General, EMF-ECBC

Vancouver – 18 April 2018



UPCOMING ECBC PLENARY

28th ECBC Plenary Meeting 12 September 2018, Munich

Vancouver – 18 April 2018



27th ECBC PLENARY MEETING

18 APRIL 2018 | VANCOUVER, CANADA

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Energy efficient Mortgages Action Plan (EeMAP) & Energy efficiency Data Portal & Protocol (EeDaPP) Panel Event



**Energy
Efficient
Mortgages
Initiative**

Action Plan
(EeMAP)

Data Protocol & Portal
(EeDaPP)



STAKEHOLDERS



NEWS



UPCOMING EVENTS

Introduction

Luca BERTALOT

Secretary General, EMF-ECBC
Coordinator, EeMAP & EeDaPP

Vancouver – 18 April 2018

Energy efficient Mortgages Action Plan (EeMAP) & Energy efficiency Data Portal & Protocol (EeDaPP) Panel Event

Marco
Marijewycz
E.ON

Joop Hessels
ABN AMRO

Torsten
Schmidt
**TXS Funding
Solutions**

Masashi
Niimura
**Japan Housing
Finance Agency**

Panel Moderator

Chris Ostrowski
Official Monetary and
Financial Institutions
Forum (OMFIF)

Christiaan
Pennekamp
Hypoport

Chrissa
Pagitsas
Fannie Mae

Jennifer
Johnson
**EeMAP &
EeDaPP**

Energy Efficient Mortgages Initiative

► Closing Dinner



J.P.Morgan

Organised in cooperation with the Canada Mortgage
and Housing Corporation and Euromoney
Conferences