



**BANCO CENTRAL DO BRASIL**

# **Covered Bond in Brazil Regulatory Framework**

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1. Main Features;
2. Segregation of assets;
3. Cover Pool Management;
4. Cover Pool Monitoring and Banking Supervision;
5. Transparency; and
6. Insolvency Proceedings

# Letra Imobiliária Garantida (LIG) Brazilian Covered Bond

## MAIN FEATURES

3

- Framework: Law 13,097/15 (arts. 63-94) and Resolution 4,598/17

Standard Requirements	Specific Features
Cover pool under fiduciary regime and ring-fenced in the bank's balance sheet	Fiduciary agent takes over cover pool management in case of issuer bankruptcy
Registration with a central depository	One or multiple cover pools
Requirements for cover pool management	Reporting and disclosure requirements
Fiduciary agent monitors and supervises cover pool	Special repayment regime primarily set for the LIGs upon issuer bankruptcy

# Letra Imobiliária Garantida (LIG) Brazilian Covered Bond

## SEGREGATION OF ASSETS

4

- LIG investors will have a first recourse through the issuing institution's credit strength;
- In case of issuer's default, creditors hold a claim on the assets included in the cover pool - limited to the complete fulfilment of the payment obligations attached to the covered bond - in priority to any other unsecured creditors;
- LIG legislation supersedes the general bankruptcy legislation, hence it will not be subject to seizure or any constraint stemming from other claims of the issuing institution.



# Letra Imobiliária Garantida (LIG) Brazilian Covered Bond

## COVER POOL MANAGEMENT

- Issuing institution has ongoing obligation to manage cover pool so specific requirements are met, regarding asset eligibility, overcollateralization (5%), liquidity and duration;
- Cover pool assets are produced by Real Estate Loans (residential and commercial), Brazilian Treasury Bills, Cash from the assets comprising the cover pool and Derivatives;
- Up to 80% of the nominal value of the cover pool should consist on Real Estate Loans;

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## COVER POOL MANAGEMENT

- Only high quality standardized loans are eligible, and LTV limit varies from 60% to 80% of the mortgage lending value of the property;
- cover pool should contain liquid assets (national treasury bonds or cash) at an amount equivalent to the LIG-related commitments and falling due in the next 180 days;
- the weighted average term of the cover pool assets cannot be lower than the weighted average term of the LIGs secured by such cover pool.

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## COVER POOL MONITORING AND BANKING SUPERVISION

- Fiduciary agent: independent third party licensed by the Brazilian Central Bank to play the following roles:
  - protect the interests of the LIG investor;
  - assess documents made available by the issuer regarding cover pool management;
  - issuance of regular reports to the Central Bank;
  - **cover pool management mandate in case of issuer's default;**
- The Brazilian Central Bank carries out assessment of the issuers as part of banking supervision activity, supervises the Fiduciary Agent's performance and has legal power to take appropriate measures.

# Letra Imobiliária Garantida (LIG) Brazilian Covered Bond


## TRANSPARENCY


- documentation available on the internet about the methodologies adopted for complying with the requisites of the cover pool;
- specific report on the status of the cover pool portfolio and of the LIGs secured thereby at the end of each calendar quarter, encompassing:
  - risk assessment and mitigation mechanisms used;
  - assessment of the eligibility, composition, sufficiency, term and liquidity requirements; and
  - compliance with conditions contractually established.




# Letra Imobiliária Garantida (LIG) Brazilian Covered Bond

## INSOLVENCY PROCEEDINGS

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- Issuing institution establish the Cover Pool Management Transition Plan, to be implemented in the event of insolvency from the issuer
  - In case of default, the cover pool will be segregated by law from the general insolvency estate;

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- The right to manage and dispose of the recorded assets will be transferred to the fiduciary agent automatically by law;
  - Fiduciary agent should engage an independent auditor to prepare reports on the results of periodical audit of the cover pool as well as of the secured LIGs;

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- In case the cover pool is not sufficient to cover all claims, creditors also participate in the insolvency proceedings with respect to the issuer's remaining assets.
  - Once the LIG is fully amortized, any remaining assets will be released to the insolvency estate's balance sheet.

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