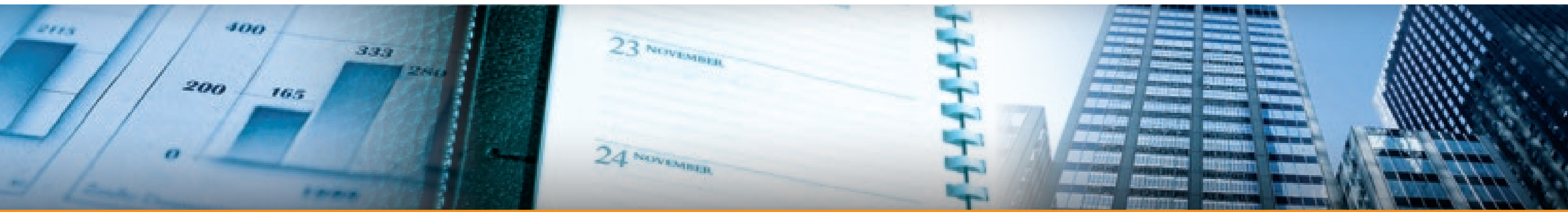
EMF ECBC

Market Insights & Updates

06.2017

June 2017



Summary

Contact:
EMF-ECBC Secretariat
Tel: +32 2 285 40 30
E-mail: info@hypo.org
Web: www.hypo.org

TO RECEIVE MARKET INSIGHTS & UPDATES IN YOUR MAILBOX EVERY MONTH, PLEASE CLICK HERE

EMF | ECBC
EUROPEAN MORTGAGE FEDERATION
EUROPEAN COVERED BOND COUNCIL

EMF Quarterly Review – Q1 2017

By Daniele Westig, Economic Adviser, EMF-ECBC

INTRODUCTION

The first quarter of 2017 continued on the same path seen in 2016, namely increasing mortgage markets coupled with a general increase in house prices over the year and with persistent low, though in some jurisdictions and for some products, timidly increasing interest rates. These dynamics are underpinned by a widespread improvement of the economic performance of the EU whose GDP in Q1 2017 increased by 2.4% with respect to Q1 2016, coupled with an ongoing diminishing unemployment rate and a general increase in consumer confidence.

MORTGAGE LENDING

Gross mortgage lending in aggregated terms for our EU sample[1] grew by 9.5% with respect to the same quarter in 2016, but contracted by nearly 4% with respect to the previous quarter reaching EUR 269 bn. 2017 depicted the strongest first quarter in gross lending since 2007. Also, the outstanding mortgage lending figures increased in Q1 2017 both year-on-year (y-o-y) and quarter-on-quarter (q-o-q), and nearly reached the peak of Q4 2015, notwithstanding the depreciation of the British Pound with respect to the Euro, which decreased in Euro terms the British outstanding mortgage lending by around EUR 200 bn since the last quarter of 2015. Besides well-known economic pull factors, government-led programmes and macroprudential tools were also important factors which impacted on the mortgage lending activity throughout the continent.

In countries like **Belgium**, **Czech Republic**, **Finland** and **Sweden** the strong mortgage market performance let to discussions, recommendations or rumours to plan new macroprudential tools. In Belgium, the general increase was due both to credits for purchase but also due to mortgage refinancing, which accounted respectively for a 14.5% and 34% increase y-o-y. In Q1 2017 new mortgage lending

1 In Q1 2017 the sample for the Quarterly Review included BE, CZ, DE, DK, ES, FI, FR, HU, IE, IT, NL, PL, PT, RO, SE and UK. (i.e. around 95% of the total outstanding mortgage lending in the EU28 in 2015).

reached an all-time high with 62,000 mortgage credit contracts totalling almost EUR 7.7 bn. This evolution is explained by the current low interest rate, but also by the perception of future increases in interest rates as well as by the rumours that the regulator, to curb mortgage lending, might try to discourage the granting of loans with a too high LTV. Non-regularised defaults are stable at around 1.1% of the loans outstanding and therefore follow the increase of the total number of current mortgage credit.

In the Czech Republic, new mortgages increased by 27.5% y-o-y and at the end of 2016 the Czech National Bank issued several recommendations not to exceed a maximum of 90% LTV, which will be further reduced to 85% later in 2017. Although this is not legally binding the Czech National Bank can request a higher volume of the Mandatory Minimum Reserve, which implies an increased cost for lending. A further recommendation relates to capping the proportion of loans with an LTV between 80% and 90% to not more than 15% of the total volume of loans provided by a bank. These recommendations, together with the expectation of an increase in interest rates are expected to decelerate the growth in the mortgage market. In Finland strong economic growth coupled with a new peak of consumer confidence is reflected in a buoyant mortgage market, which increased by 11% y-o-y. Outstanding loans increased by a more modest 2% because loans have been amortised at a faster rate than in previous years as low interest rates have enabled a larger proportion of principal in the instalments of constant payment loans. The Finnish Financial Supervisory Authority (FIN-FSA) decided that credit institutions which use their own internal ratings-based models would be set a minimum level for the average risk weight on their mortgage portfolios. The risk weight floor was initially set at 10% but raised to 15% in the March 2017 decision of the FIN-FSA. Moreover, a potential loan cap to income is also present in the debate, but no decisions have been taken yet.

Moving west to Sweden, amortisation rules were imposed in June 2016 following different measures to cool down mortgage lending and house prices over recent years. The national supervisory authority has presented plans to sharpen the amortisation rules for mortgage borrowers with higher loan to gross income than 450%. Here, net mortgage lending is still high, but continues to decelerate from 8.0% in Q1 2016 to 7.1% one year later. Besides strong economic fundamentals and the well-known housing under-supply with respect to demand, another factor of continuously increasing lending and house prices is the fact that the rental market is not functioning well in the growth regions due to a general rent control. This results in many years of queuing for a rental apartment, which pushes the home seeker to buy an apartment or rent a second-hand apartment at inflated costs with respect to the first-hand market.

In **Hungary**, where gross mortgage lending increased by 59% y-o-y and by 15% q-o-q, the National Bank has introduced a new regulation concerning the funding of mortgage loans. Here, starting from 1 April 2017, commercial banks must fund at least 15% of their mortgage loan portfolio by mortgage bonds. Therefore, commercial banks offering mortgage loans entered into refinancing agreements with mortgage banks.

In countries like **Ireland** and **Poland** the governments have set up schemes to facilitate to set the first foot on the property ladder. In Ireland, the Help-to-Buy scheme, which provides income and deposit interest tax rebates to first-time buyers (FTB) of new residential property, may also have boosted mortgage activity. FTB and mover purchase volumes reached their highest Q1 levels since 2008. Gross lending grew by 39.4% y-o-y. The strong growth rates partly reflect the relative weakness of Q1 2016. In Poland, the market remained under strong influence of the 'Flat for youth' housing scheme. As new tranches of the programme are activated every year – the customers are eager to file for loans in January-February, as the funds get disbursed very quickly. On the other hand, an increase in the required down-payment (up to 20%) was introduced from 1st January 2017 (according to the provisions of Recommendation S on good practices in the management of mortgage credit exposures) – but this did not significantly affect the credit market. In Q1 2017 banks did not change the standards and terms on housing loans, and a rise in demand for housing loans was experienced. In fact, nearly 51,000 new mortgage loans were granted, which amounted to a 20% increase with respect to the previous quarter. In any case, a modest fall in housing loan demand is expected in Q2 2017.

In **Spain**, mortgage lending increased by 9% y-o-y with a smaller share of refinancing of 4.3% in Q1 2017 with respect to 15.5% in Q1 2016. At the end of 2016 the ECJ ruled against the so-called "floor-clauses" used in Spain, which imposed mortgage holders to pay a minimum amount of interest rate even if the benchmark Euribor-driven rate drops below this, thus imposing the lenders to refund EUR 3 bn. In order to prevent further litigations of this kind the government is working on the mortgage reform to implement into the national legislation the European Mortgage Credit Directive. In **Portugal**, strong demand increased both prices and sales volumes, which is especially evident in metropolitan areas and which is expected to continue for the rest of 2017. It should be noted that in Lisbon nearly one property out of five has been sold to international investors. Outstanding loans continued their descending path since Q4 2011 closing the first quarter of 2017 at around EUR 95 bn. New lending, on the other hand, continued to grow approaching the levels of 2011, but is still far from the level observed before the financial crisis. The positive development seen in the Portuguese mortgage market may create incentives for the adoption of less restrictive credit criteria.

In absolute terms the largest increase in outstanding and gross loans was in **France**, which increased over the last 12 months by respectively by EUR 43 bn and by EUR 18 bn. This dynamic is mainly due to the existing housing market take-off of 67.9%, while the new housing market increased by 'only' 45%. **Romania**, on the other hand, had the largest percentage increase in terms of outstanding mortgage market at nearly 11% y-o-y, while gross lending registered nearly a 25% decrease over the same period. New mortgage loans were almost entirely granted in local currency and non-performing loans reached 4.7%, a 0.2 pps increase with respect to the end of 2016. The Romanian banks indicated that credit standards for housing loans have been tightened in Q1 2017 to curb this dynamic.

In **Denmark**, gross lending continued to decrease slightly since the beginning of 2015 reaching DKK 114 bn, i.e. DKK 49 bn less than in the previous quarter. On the other hand, total outstanding residential lending increased by 2% y-o-y and reached DKK 1,800 bn.

Moving south, in **Italy** the mortgage market confirmed the positive trend of the past quarters with a 2.5% and 3.2% increase of respectively the outstanding and the gross lending figures, which can be explained by the positive demand driven by low interest rates and favourable housing prices. Similarly, in **Germany** the mortgage market continues on its growing path with an increase in outstanding and gross lending of 3.8% and 1.0% respectively.

A slower than expected economic growth and high inflation coupled with a nevertheless strong labour market saw the **UK** set a mixed economic picture, where the housing market has been flat with a steady lending activity. Mortgage lending has been buoyed by re-mortgaging activity, as attractive mortgage rates continue to encourage borrowers to refinance. Buy-to-let house purchases remain significantly weaker than a year ago, as a tax change on second properties introduced in March 2016 continued to dampen activity.

HOUSE PRICES

With the available data at hand[2] all the countries in the sample saw their house prices increase over the course of the last 12 months. However, significant differences remain both among and within countries, which have to be analysed more in depth. At first glance house prices continue to increase throughout the EU principally due to improved economic fundamentals, but also due to the lack of available housing and due to the insufficient construction rate.

This latter factor has been highlighted in several countries such as the **Czech Republic**, **Germany**, **Ireland** and **Portugal**. In the central European countries the rate at which new flats are being built is decreasing due to legislative obstructions and requirements. In

2 Out of the sample 10 countries (DE, DK, ES, FI,IE,NL, PL, PT, SE and UK) provided HPI data for Q1 2017, while for the other 6 countries data from Q4 2016 has been used.

2016 house prices increased by a double-digit pace and expensive dwellings are not only found in large cities such as Prague or Brno, but also in smaller ones like Hradec Kralove. This trend is expected to continue, especially due to the relatively long realisation time of residential projects. A similar picture is seen in Germany where long production times and high utilisation capacity will provide the required dwellings with a time lag. House prices for owner-occupied dwellings rose in Q1 2017 by 5.6% y-o-y and this trend, especially in the high demand areas of the metropolitan regions and attractive university towns, is expected to persist. In Ireland, the Banking & Payments Federation Ireland (BPFI) together with other commentators pointed to a lack of available housing, especially suitable family accommodation, as a major issue in the Irish economy. Building activity has increased in recent years, however the levels are still well below the annual estimated demand of 25,000 homes. As a result, the HPI increase was 9.6% y-o-y in the first quarter of 2017, with an increase of 8.3% in Dublin and 11.6% in the rest of the country. In Portugal, according to the latest available statistics, house prices grew by 7.1% in 2016, compared to 3.1% in 2015. The principal factor for this evolution is again a lack of available houses, notwithstanding the doubling of new residential projects in the pipeline over the past year.

In **Finland**, thanks to the increased construction activity and the 5% growth of housing completion rates with respect to the past year, there is no sign of overheating in house prices, which only increased moderately. Likewise in **Sweden**, one-family home and apartment prices, though still increasing by 8.2% on an annual basis in Q1 2017, are continuing to show signs of deceleration with respect to the past year when they both grew at a double-digit pace. Among others, this evolution can be partly ascribed to a continuous increase in the construction activity which in the next year is expected to reach the former record level of 1990. Notwithstanding these steps of closing the gap between demand and supply, the National Board of Housing believes that it will take several years of construction to fill the lack of housing. However, high prices and new amortisation rules are dampening the possibility for some sectors of the population to enter the housing market, which will lead to a gradual dampening in the coming years. In the **UK**, house prices show signs of deceleration as well due to, among others, the elevated price of housing compared to income. Moreover, growth in the number of FTBs has offset slightly weaker home mover numbers, which have been subdued for some time now as they benefit less from government housing schemes and have been left to largely to fend for themselves. Over the last 12 months, for the first time since 1996, there were more FTBs (355,000) than movers (345,000). The low number of home movers has a wider housing market impact, which is fewer properties coming on the market for sale. On average, nine out of 10 properties on the market are existing properties, not new ones. Thus, this supply/demand imbalance has underpinned house price values and will continue to do so going forward. In **Hungary**, in the current year a steep increase in new housing construction is expected, following a near tripling of building permits in 2016 with respect to 2015. Residential property prices rose by 3.5% in Q4 2016 y-o-y and from April 2014 to December 2016 the FHB House Price index grew by 50% in real terms.

In **Belgium**, the price of existing houses increased by 2.9% while new-builds grew by 1.5% in 2016. An ordinary house could be bought with little more than EUR 216,000, a y-o-y increase of 5.7%, and on average a villa cost around EUR 347,000, a y-o-y increase of 2.1%, while apartments were around EUR 222,000, a marginal increase of 0.7% y-o-y. In **France**, since 2015 house prices are on the rise and have shown some degree of acceleration lately, with the existing housing market growing more than the new housing market. In **Spain** house prices have been growing since Q1 2015, now reaching the levels seen in Q4 2012. In **Romania**, the positive house price dynamic has been in place since Q3 2015 and registered an 8.0% growth in 2016. In **Denmark** house prices grew in Q1 2017 by 6.0% y-o-y, mostly due to an increase in one-family houses and owner-occupied flats. Along with increasing house prices, sales activity has also risen throughout the past year by 11.2% for one-family houses and by 8.2% for owner-occupied flats respectively.

In **Italy** as well as in **Poland**, house prices remained stable in Q1 2017. In Italy, the price of new dwellings decreased y-o-y by 0.1% while the price of existing dwelings marginally increased by the same amount. For the time being in Poland there is no argument allowing to predict an increase in prices in the near future.

INTEREST RATES

Interest rates in Europe seem to have finished their downwards trend which started in Q1 2008. From our sample, most countries reported that their most indicative interest rates have slightly decreased and the unweighted average of all interest rates showed, for the first time since 2008, a slight increase of 0.03 pp to 2.31. This trend is seen both in and outside the Eurozone. Notwithstanding the aggregate change of dynamics, the general level of interest rates in Europe is still exceptionally low.

Countries like **Belgium**, the **Czech Republic**, **Denmark**, **France**, **Italy**, **Romania** and **Spain** have experienced a bottoming-out of their interest rates and registered some sort of increase during Q1 2017. Belgium registered a slight increase to 2.09% (0.09 pps more with respect to previous quarter). Here, new fixed-interest rate loans and loans with a fixed rate period of more than 10 years accounted for 92.2% of all new loans provided, while a marginal 0.5% of loans have an initial fixed period of up to 1 year. The remaining share is taken by loans with a medium-term initial fixed period. In the Czech Republic, the average interest rate climbed by 0.18 pps to 1.95%. This trend is expected to further continue also due to legislative changes and recommendations on maximum LTV, as well as due to the termination of currency intervention by the Czech National Bank. In Denmark, the interest rates increased marginally but still remained at very low levels. In Q1 2017, households were able to borrow at a rate of 1.1% with an initial rate fixation of one year, while more fixed interest rates climbed by 0.1pp in a quarter to 2.96%. Similarly, in France, the average interest rate increased by 0.14 pps to 1.46% end of Q1 2017. However, the interest rate corrected by inflation has registered a new all-time low of 1.2%. In Italy, the interest rate remained virtually stable with a marginal increase of 0.02 pps to 1.72% of variable rate loans while the more fixed ones increased more substantially by 0.07 pps to 2.25% over the last quarter. In Romania, the representative mortgage rate stood at 3.71%, registering a 0.20 pps increase q-o-q. In Spain, on the one hand variable interest rates continued their downwards trend, whilst on the other more fixed arrangements saw their rates increase, which offset the financial margin loss resulting from the low rate environment. In aggregate terms the average interest rate on new loans was around 1.97%, increasing by less than 0.01 pps with respect to previous quarter. Fixed-term loans continued to grow reaching more than 58% of all newly issued loans. Financial entities have focused on fixed-term rates not only to obtain higher margins but also to mitigate credit risk, considering future interest rate rises. This, coupled to the security of not having to face surprises in the interest rates, has convinced a growing number of borrowers to opt for this solution.

In **Portugal** too loans with fixed interest rates are increasing for the above-mentioned reasons. As far as variable rate loans are concerned, the external component which is linked to the Euribor reached historical low levels and contributed both to the increase of gross residential lending and to reducing household debt. On average, considering the spread index, a component assigned by the banks to each borrower considering the risk of the client and the LTV, the variable interest rate in Q1 2017 decreased by 0.07pps q-o-q to 1.70%. In **Ireland**, fixed rate mortgages continue to increase their market share reaching currently 40% of new loans compared to a long-term average of 20%. The interest rates on outstanding loans are also heavily influenced by the ECB base rate because about 48% of mortgages outstanding were on tracker rates, which averaged 1.03% for private dwelling home mortgages and 1.06% for buy-to-let.

In **Finland**, interest rates for new housing are at an all-time low of 1.13%, while in the **UK** average mortgage rates on lower loan-to-value mortgages continue to fall and fixed range mortgages on offer at 75% LTV are currently at their all-time lows as well in all fixed period lengths. In **Hungary**, for the first time ever the average typical mortgage undercut the 4% line, reaching 3.9% in Q1 2017.

In **Sweden** mortgage interest rates were stable during Q1 2017, with variable and medium-term fixed rates staying around 1.6% and 1.7% respectively, while the more fixed interest rates increased slightly to 2.6%.

Chart 1a ▶ Countries where gross residential lending has remained below 80% of 2007 levels

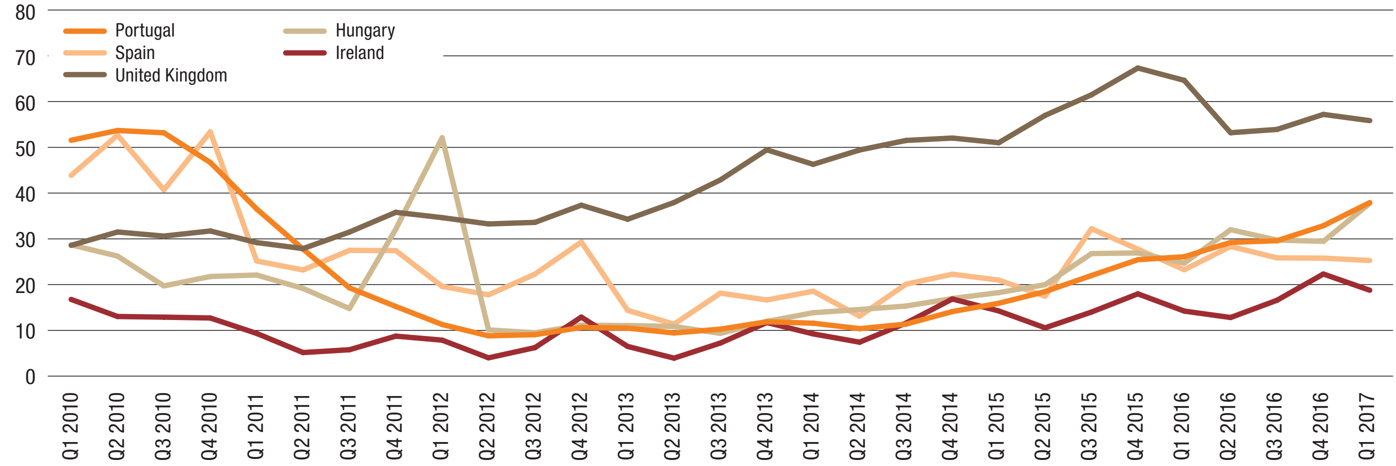


Chart 1b ▶ Countries where gross residential lending has remained between 80% and 120% of 2007 levels

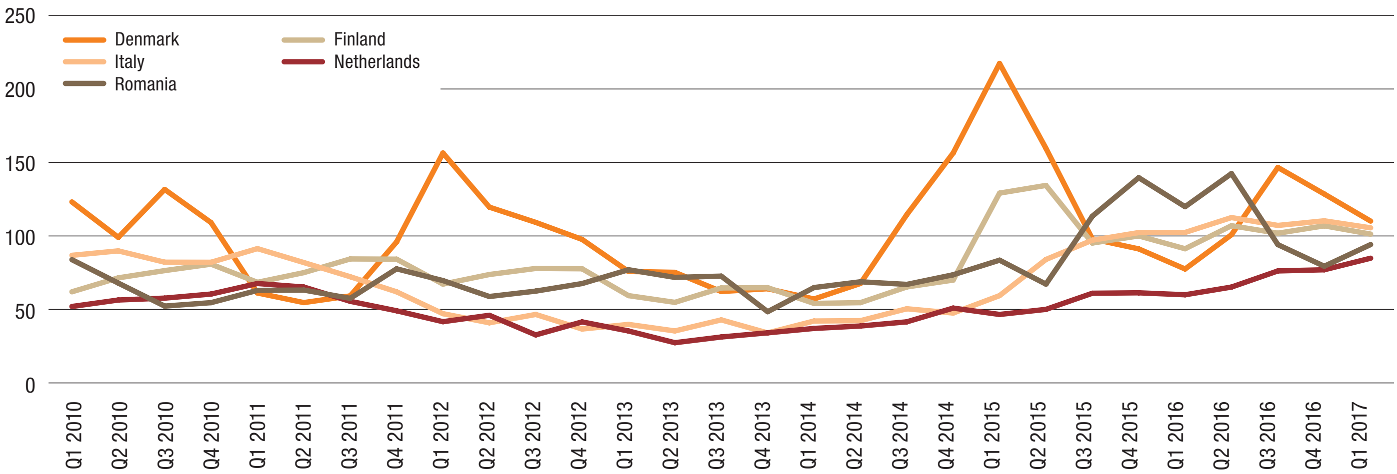


Chart 1c ▶ Countries where gross residential lending has risen above 120% of 2007 levels

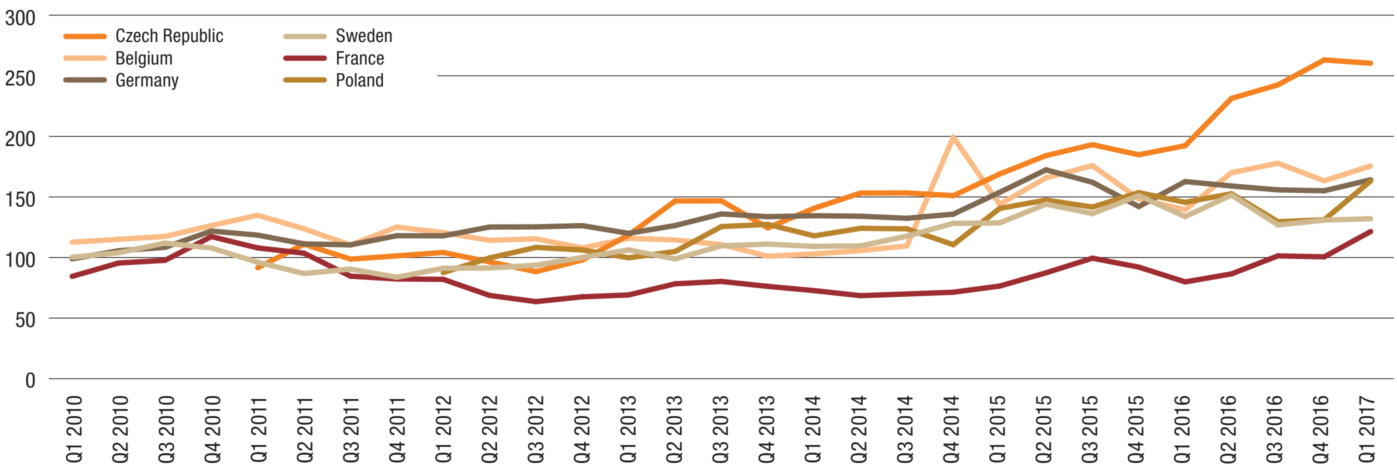


Chart 2a ▶ Countries where house prices have increased at most 2% y-o-y (base year 2007)

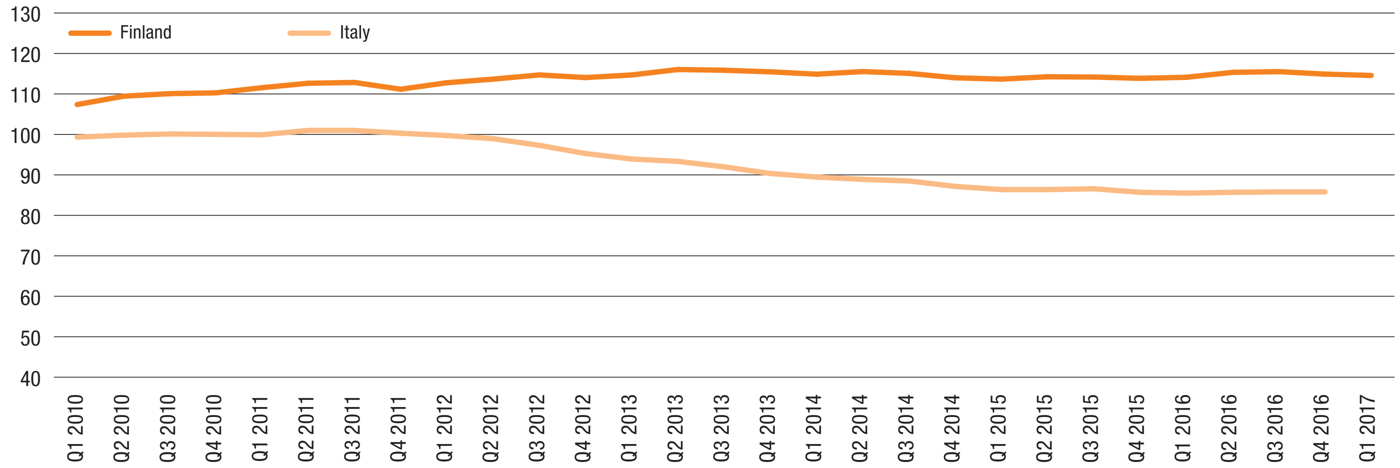


Chart 2b ▶ Countries where house prices have increased between 2% and 5% y-o-y (base year 2007)

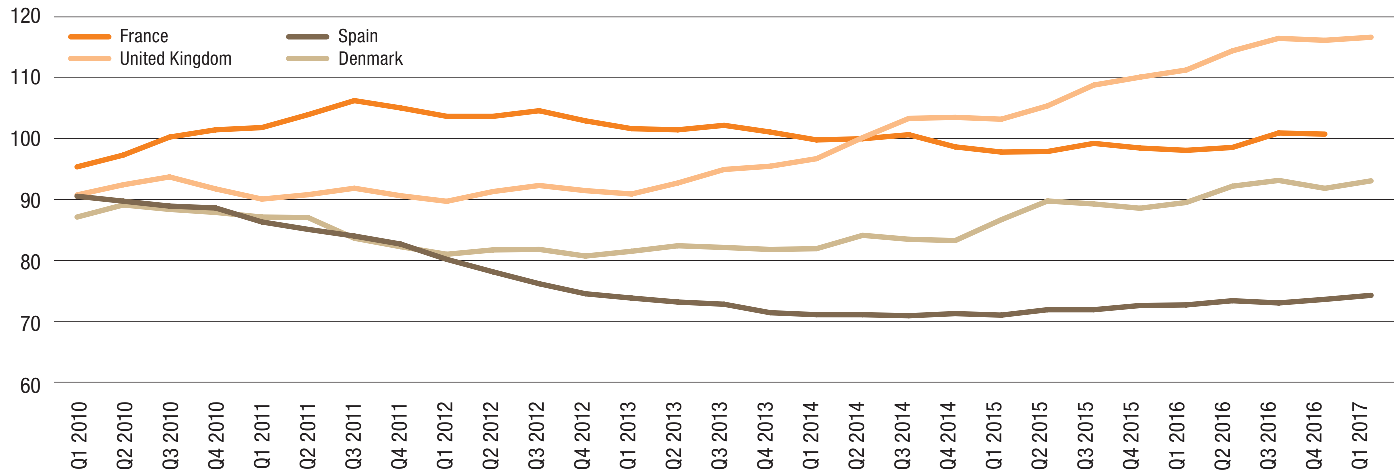


Chart 2c ▶ Countries where house prices have risen by at least 5% y-o-y (base year 2007)

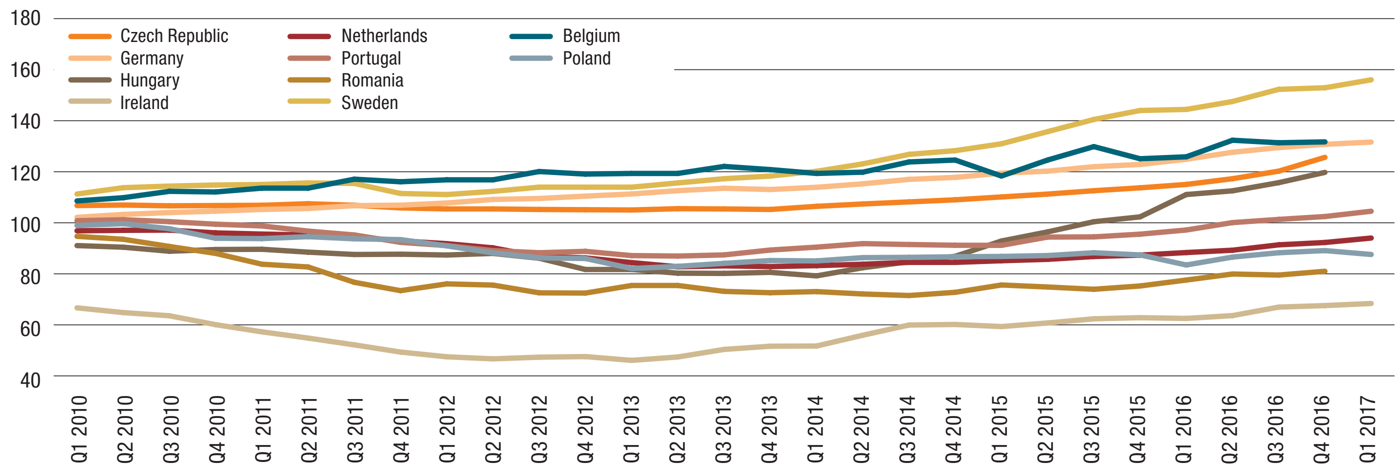
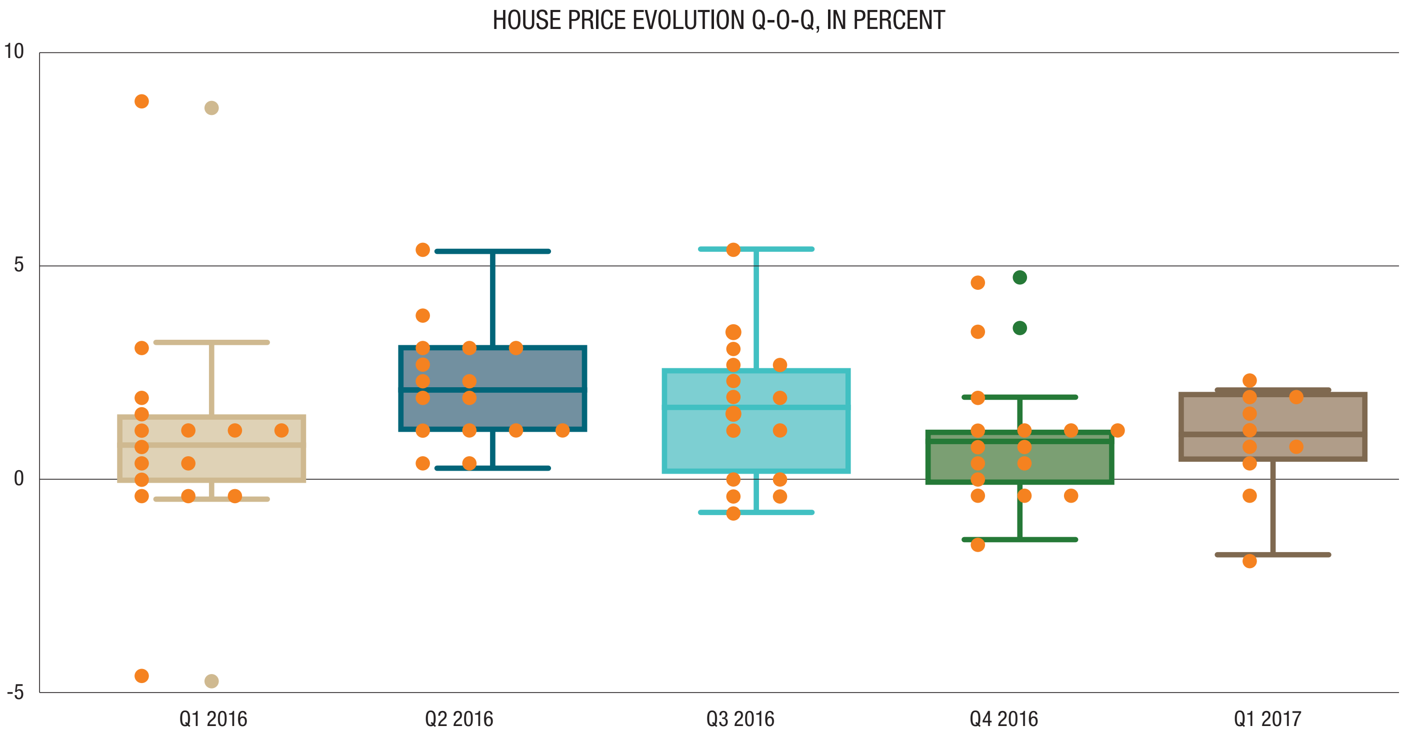


Chart 3 ▶ Box Plot of the House Price Evolution in the EU with respect to the previous quarter



Notes:
Boxplots depict intuitively the distributional characteristics of a dataset, in this case the q-o-q House Price Index evolution of the country sample. The rectangle represents the second and third quartile of the data and the central horizontal line indicates the median value, i.e. the value that splits the sample in two equal halves. The horizontal lines below and above the box indicate respectively the lower and the upper quartiles. Eventual 'outliers' are depicts as points if they are more than 1.5 times the interquartile distance – the height of the box – away from respectively Q1 or Q3. This is the case for Q1 2016.

The data set shows the q-o-q growth figures of the country sample In Q4 2016 the data points are 10 instead of 16 as in 6 countries the latest House Price Index available was that of Q3 2016.

EeMAP Kick-Off: Harnessing Private Finance for Energy Efficiency to Support the EU Commitment to COP 21

By Luca Bertalot, EMF-ECBC Secretary General & EeMAP Consortium Coordinator

On 9 June 2017 European stakeholders gathered in Rome to confirm their commitment to the COP 21 Paris Agreement and propose concrete solutions to enhance energy efficiency in the European Union. The **Energy efficient Mortgages Action Plan (EeMAP)** Initiative was presented at a Kick-Off Stakeholder Meeting with over 100 participants and panellists present, representing a cross-sector of key market players such as European and international investors, issuers, lenders, property valuers, academics, energy suppliers, buildings experts and SMEs.

Together with the European Parliament, the European Commission and local authorities, these market participants discussed the potential to channel private capital into energy efficiency investments, supporting EU property owners in the renovation of their residential and commercial properties, and helping the EU Institutions to bridge the investment gap to deliver on its energy savings targets. The designing of common best practices for energy efficient mortgages at European level will free up cross-border private sector capital, generating significant fiscal relief for Member States.

With more than 210 million units (equal to 89%) of the EU´s residential building stock, for example, having been built before the year 2001, substantial efforts are required to channel private capital into bringing energy inefficient homes in line with new energy standards. From a savings perspective, a renovated house that moves from an 'E' to a 'B' grade in its energy performance certificate (EPC) will save a family an estimated EUR 24,000 over 30 years, according to an analysis of 365,000 house sales in Denmark last year.

Recent market research conducted by the EMF-ECBC reveals a strong willingness among financial institutions to enter the energy efficiency finance market. The EeMAP Initiative is market-led and first of its kind, and aims at the design and delivery of an "energy efficient mortgage", intended to incentivise the acquisition of energy efficient properties or the improvement of the energy efficiency of existing properties by way of preferential financing conditions linked to the mortgage.

At the heart of the Initiative is the assumption that energy efficiency has a risk mitigation effect for banks as a result of its impact on a borrower's ability to service their loan and on the value of the property. This means that energy efficient mortgages will represent a lower risk on the balance sheet of banks and could, therefore, qualify for a better capital treatment. Lower capital requirements deliver a strong incentive for banks to enter the market and, as a result, drive a broader incentive chain, in which all stakeholders, including EU citizens, issuers, investors and society as a whole, derive a concrete benefit.

More broadly, the EeMAP Initiative delivers the following outcomes:

- **Energy Efficiency:** The EeMAP Initiative fits well within the European Commission's own framework for climate and energy policies, which aims to encourage investments and boost private finance for EE investments/buildings. Particularly it is worth highlighting that to reach the 20% energy saving target by 2020, the EE Directive's Article 4 includes a requirement for Member States to establish and periodically update *"a long-term strategy for mobilising investment in the renovation of the national stock of residential and commercial buildings"*.

- **Jobs & Growth:** The EeMAP boosts private investment in energy efficiency improvements, largely through retrofitting, which will in turn boost SME activity in the retrofitting sector, thereby contributing to the European Commission's growth and jobs agenda.

- **Financial Stability:** This pan-European market-led Project will trigger market due diligence for borrowers, issuers and investors, reduce probability of borrower default, facilitate de-risking of banks' balance sheets and management of non-performing loans, as well as enhance transparency and pricing in the market by adding a green factor to real estate.

Commenting on the event, Luca Bertalot, EeMAP Coordinator & EMF-ECBC Secretary General, said: *"In the context of the European Commission's*

EeMAP
Energy efficient
Mortgages
Action Plan

Capital Markets Union Mid-Term Review published on 8 June 2017, the EeMAP Initiative represents a concrete step towards a clear cross-sectoral roadmap for the private financing of energy efficiency and, as such, a strong, market response to the challenge presented by climate change, underlining the foresight and proactivity of the stakeholders involved. The Initiative will encourage the energy efficient renovation of the EU's building stock, in support of the EU's ambitious energy savings targets and its commitment to the COP 21 Agreement and is therefore of strategic importance from an environmental, financial, and economic perspective."

We are pleased to announce that a series of **videos covering the Kick-Off meeting's discussions** is now available to watch online here.

For more information about the EeMAP Initiative in general – including short video interviews with some of the Initiative's supporters – please visit the dedicated EeMAP Website: www.energyefficientmortgages.eu (under development).

European Covered Bonds – The Investor Perspective

By Jozef Prokes and Giulia Artolli, Blackrock & Henrik Stille, Nordea Asset Management

A year in which the covered bond market was strongly influenced by central bank policy is now behind us. The European Central Bank (ECB), through its monetary policy tool – the Covered Bond Purchase Programme 3 (CBPP3) – remains by far the largest investor in euro covered bonds. As such, one could have expected 2015 to be an uneventful year given that yields are at the lows and the ECB's dominating presence in the markets persists. Fortunately, this was not the case and 2015 was much more interesting and challenging than had been anticipated. In our view, this is not only true for investors but also for market makers who seek to provide liquidity to a secondary market that is becoming increasingly difficult to trade in.

For spreads, 2015 proved to be a roller coaster ride. After initial aggressive tightening on a euphoric move over the CBPP3 announcement, spreads reversed their gains during the May-June 2015 selloff in rates. September 2015 saw them move one leg wider, this time driven by heavy issuance. It was clear that the CBPP3 during the beginning of the year had tightened spreads to levels where no real buying interest could be found, which meant levels indicated by secondary markets were too tight for primary market issuance. During this period it also became evident that secondary market liquidity in covered bonds was lower than previously thought. Nonetheless, it is important to note that despite the effects of monetary policy, the market depth of covered bonds has remained superior to that of the corporate bond markets. During the latter part of 2015, spreads stabilised, and following the ECB announcement of further monetary policy stimulus in March 2016, tightened yet again. At the time of writing spreads are at similar levels seen in the beginning of 2015. For issuers of more volatile covered bonds, the range between the tightest and widest spreads is close to 70bps over the last 12 months. In our view, this has been driven by technical factors as well as the CBPP3´s presence in the market, which has contributed to higher volatility instead of reducing it. We see this as a general regime shift in the broader fixed income markets caused by increased banking regulation that prevents banks from holding large covered bond positions on their balance sheets. Investors should therefore become accustomed to higher volatility, not just in the covered bond market, but the fixed income markets in general.

A proposition often debated is whether covered bonds still offer opportunities to cross-market investors. This is particularly relevant for the asset class given the diminishing dedicated investor base that we have witnessed after multiple rounds of the CBPPs. While we all probably agree that covered bonds offer structural benefits to investors (dual recourse, bail-in exclusion, etc.), once all of this is priced in we are left with a simple old dilemma – do we get compensated for the perceived risks inherent in this asset class? Looking at spread evolution over the last couple of years, the tempting answer would be a simple "no". However, a very similar view could be taken on other asset classes under this mean reverting measure and we note that covered bonds are probably the only asset for which investor protection increased post-crisis. Therefore, contrary to spread development charts, we do feel that we get compensated for the risks we take when investing, at least most of the time.

Ever since the mid-2012, the European Banking Authority (EBA) consultation on bail-in we have meaningfully notched down most of the credit risk perception in covered bonds and believe this view has been vindicated by spread behaviour even in some the more distressed names. Therefore, we must ask ourselves the following question: what risks actually remain? In our opinion, the greatest risk investors face is the correlation to other asset classes or, to phrase it differently, whether covered bonds offer any diversification to non-covered bond funds. Without throwing around a lot of fancy numbers we find that short-term correlations to sovereigns and credit have meaningfully decreased over the past five years, resulting in covered bonds becoming more interesting to cross-market investors. These technical changes will benefit this market going forward as its popularity as a building block in active allocation products increases. Looking back in time we also find that, at least for short-term horizons, covered bonds tend to live in a world of their own irrespective of the pressure or euphoria experienced by other instruments. Additionally, covered bonds are often viewed as the number one fixed income product that offers general "European" exposure without as much of the underlying country risk which is present in government bonds. In short, we continue to find value in the low or even negative correlations to sovereign and credit markets.

Another challenge many of us are faced with is liquidity. On this topic we feel obliged to state the painfully obvious – the lower liquidity environment is a new paradigm that is here to stay and a mean reversion rebound is unlikely. Covered bonds are no exception to this and while much of the blame is hurled at monetary policy and its impact on free float, we do not believe this to be the main driver. This is exemplified by the ability of the covered bond market, which has been subject to the ECB actions for much longer, to shake off the impact of low secondary market liquidity and to exhibit risk-on/risk-off patterns that are hardly dissimilar to those of credit markets, albeit with different drivers. Therefore, contrary to many views we perceive the recent liquidity draught to be a structural regime shift which requires market participants to review their investment style.

The first months of 2016 saw a large number of investors return to the covered bond market. This was partially driven by the increase in spread divergence across a number of countries on the back of higher issuance and a series of idiosyncratic stories. Additionally, a number of new or infrequent issuers entered or returned to this market in the hope of finding cheaper funding and broadening their investor base. This trend was reflected by the Q1 2016 euro covered bond issuance volumes being 56% higher than those of Q1 2015. The recent increase in supply has been well received by the market and this is reflected by higher quality and largely oversubscribed order books. Going forward, as Central Bank policy continues to play an important role for this asset class, we believe that non-Eurozone issuers are increasingly likely to benefit as investors seek higher yielding covered bonds that are non-QE eligible.

One of the most exciting developments in the covered bond market at the moment is that the number of covered bond jurisdictions is growing. More jurisdictions mean that there are more legislations to analyse, more issuers to follow and increases the number of relative value opportunities available to investors. As we welcome new jurisdictions into the covered bond universe, it is important that the quality of the covered bond product remains unaffected. Some of the important factors we look for in new jurisdictions are:

- **The quality of the legislation –** New legislations do not have a track record when it comes to issuing new products so it is particularly important that the covered bond law is safeguarded from government involvement.

- **Transparency –** For new legislations, transparency is even more critical than for their established peers. As such, we encourage new issuers to participate in the ECBC label initiative.

- **Liquidity in the secondary markets –** Covered bonds issued by banks within new legislations tend to be less liquid and although we recognise that there are some regulatory features that play a role in this, we stress that the issuer takes liquidity into account when planning frequency, volume and spread level of their new issues.

Another scrutinised topic of discussion over the past year has been the harmonisation of covered bond legislations. On this, we believe it is important to distinguish between transparency and harmonisation. While transparency is vital, we do not think there is a strong need for a complete harmonisation of covered bond jurisdictions. Indeed, removing individual countries' idiosyncrasies may in fact be counterproductive to investors who seek relative value opportunities and may also prevent new issuers from entering the market. It is also interesting to note that the transition from hard bullet structures to cheaper soft bullet structures continues across a number of issuers. This development has been driven primarily by the preferential treatment rating agencies grant to soft bullet structures as they class the extension as credit positive. Furthermore, an increasing number of issuers are beginning to venture into more exotic structures such as conditional pass-through which, despite not yet being the market standard, has gained popularity recently. The main reason for this is probably related to the rating up-lift this structure offers to issuers. While we do not necessarily agree with this treatment and fail to recognise higher investor protection, we expect this transition to continue going forward.

Looking ahead, we maintain a positive outlook on the covered bond market and believe that it will continue to provide its investors with a range of relative value investment opportunities across new and traditional jurisdictions.

Source for all data: BlackRock / Nordea Asset Management, as at April 2016

This material is for distribution to Professional Clients (as defined by the FCA Rules) and Qualified Investors only and should not be relied upon by any other persons.

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Past performance is not a guide to current or future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2016 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK, SO WHAT DO I DO WITH MY MONEY and the stylized i logo are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

EMEACC-0227

This article is taken from the 2016 edition of the ECBC's European Covered Bond Fact Book, the full copy of which can be accessed [here](#).

European Covered Bonds – The Investor Perspective of the CIBC

By Nathalie Aubry-Stacey, International Capital Markets Association

The ICMA Covered Bond Investor Council, 'CBIC', has been in existence for more than 7 years now. The covered bond market and regulatory landscape has changed significantly since the inception of the Council. Yet the main themes discussed by ECBC and CBIC members remain similar – how to achieve greater harmonisation – primarily through transparency templates, the review of new structures, and managing liquidity issues.

The Council is an investor driven organisation, independent of issuers and the sell side. It remains committed to promoting the quality of the covered bond product and representing the interests of active European covered bond investors. The CBIC is a permanent working group of the ICMA Asset Management and Investors Council, the independent voice of the buy-side within ICMA. The CBIC approaches investors active in the covered bond market as part of the process of drawing up responses and statements, including asset managers, insurers, pension funds and bank treasuries, interested in the European covered bond market.

In the ECBC Covered Bond Fact Book 2016, the CBIC would like to focus on a theme at the heart of its mission – transparency. The European covered bond market as a financing tool for mortgages has survived the crisis without massive public intervention and the CBIC believes that only a continued focus on upholding the high quality of the product will safeguard the market against any future crisis. Dilution in quality or confusion with other fixed income products should be avoided. In this regard, it is hoped that the conclusions of the European Commission consultation process (not yet known at this stage) will recognise the value of the market efforts over many years to create covered bond standards in EU and non-EU countries. Whichever option the European Commission chooses to pursue to harmonise markets, the CBIC has been clear that it should not needlessly disrupt a well-functioning market given the history of the asset class.

In the absence thus far of enhanced rules on mandatory pool disclosure on a Europe wide basis from the European Commission, industry-led initiatives are essential to the continued good operation and standing of the covered bond market. Members welcome the enormous progress made to date by the Covered Bond Label Committee on the Harmonised Transparency Template (HTT), viewing 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. The CBIC intends to review the templates regularly according to 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.
- **Concept:** 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).

Moreover, the fact that the HTT is to be reviewed and enhanced on a yearly basis will allow investors to evaluate its effectiveness and to provide comments from members on possible features to add and refine in the template in future. We will specifically ask for more transparency regarding certain structures, such as conditional pass-through that seem to be more and more prevalent in the market.

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 – as long as all Covered Bond Label holders have a compliant HTT on their website by the end of 2016. 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 regular review by investors is part of the CBIC's commitment to enhance transparency in the covered bond market and also to its support and constructive critical assessment of market-led initiatives, ensuring their success.

This article is taken from the 2016 edition of the ECBC's European Covered Bond Fact Book, the full copy of which can be accessed here.

NEWS IN BRIEF

European Commission, Council & Parliament Reach Agreement on Securitisation Proposals

On 30 May 2017 a political deal on the EU's securitisation proposals was finally struck during the seventh round of talks among the European Commission, Council and Parliament, paving the way for the rules to become law more than 18 months after they were first issued.

To recap, the securitisation package is composed of two key files:

1. A **Securitisation Regulation** (see here) that will apply to all securitisations and include due diligence, risk retention and transparency rules together with the criteria for Simple, Transparent and Standardised ("STS") Securitisations;

2. A **proposal to amend the CRR** (see here) to make the capital treatment of securitisations for banks and investment firms more risk-sensitive and able to reflect properly the specific features of STS securitisations. As the prudential treatment of securitisations for insurers is laid down in level 2 texts, future adjustments will come at a later moment. The same applies to banks and investment firms with regards to the prudential treatment for liquidity purposes which is included in a Delegated Act that will be amended at a later stage.

ECON Publishes Draft Report on Action Plan on Retail Financial Services

On 30 May 2017 the European Parliament's Economic and Monetary Affairs (ECON) Committee published its Draft Report on the Action Plan on Retail Financial services (available here).

Amongst other issues, and of particular relevance for the mortgage credit sector, the Draft Report calls for a deeper single market for consumer credit (Action 7), fair consumer protection rules (Action 8), better creditworthiness assessments (Action 9) and touches upon FinTech for retail financial services (Action 10).

EU Banking Associations Present High-Level Principles For Banks' Feedback On SME Credit Applications

European Commission Vice-President Valdis Dombrovskis, responsible for Financial Stability, Financial Services and Capital Markets Union (centre) and representatives of the signatories of the High-Level Principles at the signing ceremony.

On 6 June 2017 the European Mortgage Federation - European Covered Bond Council (together with four other European banking associations (EAPB, EACB, EBF and ESBG) presented, after discussing with European SME organisations, a set of high-level principles regarding the communication between SMEs and banks around loan applications (available here). The principles aim at promoting high quality feedbacks on credit applications enabling SME clients to understand the reasons behind the bank's decision.

The ultimate goal is to contribute to a favourable environment for businesses in Europe by supporting the financing capacity, improving financial knowledge and enhancing access to finance for economically sound projects to ensure that SMEs can continue to grow for the benefit of Europe.

Europe's banking sector, with its pivotal financing role, fully supports and contributes to the Capital Markets Union, in particular to the objective of enhancing SME access to finance, and contributes to strengthening the ecosystem for growth in Europe by cooperating with all stakeholders.

Speaking at the signing of the High-Level Principles EMF-ECBC Secretary General, Luca Bertalot, said: *"We are delighted to present these high-level principles which are the result of an intense dialogue with members, regulators, SMEs and other banking associations. These high-level principles will be instrumental for banks and SMEs in enhancing European market best practices and facilitating market transparency."*

The majority of SME applications for credit are successful. In fact, close to 80% of all requests are approved. However, higher rates of growth can be achieved by helping those SMEs which have not been successful to understand better what they can do to obtain financing. The EMF-ECBC actively supports the initiative of strengthening feedback provided to SMEs when their credit applications do not prove successful, especially in countries were national initiatives to facilitate this dialogue have not yet been fully developed.

Many valuable initiatives for feedback for SMEs already exist at a national level across Europe. The current initiative builds on these and aims to close the gap in those areas where there is a need.

EC Publishes Mid-Term Review of the Capital Markets Union Action Plan

On 8 June 2017 the European Commission published the conclusions drawn from its Mid-Term Review of the Capital Markets Union (CMU) Action Plan (available here), which included the announcement of a number of new initiatives intended to ensure that the CMU programme remains fit for purpose. Key amongst these was the announcement for a legislative proposal for an **EU-framework on covered bonds** to help banks finance their lending activity.

The EMF-ECBC fully supports the CMU's goal of strengthening investment and funding for the long-term, and recognises the need to build a truly single market for capital in order to *"ensure easier access to finance for businesses and to support investment in the real economy"*. This commitment to helping build the CMU was evidenced earlier in June 2017 by the EMF-ECBC's signature, alongside European Commission Vice-President Dombrovskis, of the High-Level Principles for Banks' Feedback on declined SME Credit Applications.

Against this background, the EMF-ECBC would like to highlight the crucial role that the European Commission is playing in co-ordinating numerous market and institutional initiatives launched at national, European and international levels, all of which contribute towards the realisation of the CMU. For its part, the EMF-ECBC has sought to be an active contributor to the CMU Action Plan, having advanced several proposals and initiatives relating to European mortgage and covered bond markets such as the European Secured Note (ESN), the Covered Bond Label and the Energy Efficient Mortgage Initiative.

Mortgage credit and the covered bonds that fund a large proportion of such lending in Europe have a direct impact upon the real economy. As such, it is essential that the key role this sector plays in providing housing security for citizens and their families is recognised in the context of the CMU. For this reason, the **EMF-ECBC backs the concept of a high-quality principle-based EU-wide framework for covered bonds that does not adversely impact upon well-functioning national markets**, which would act as a regulatory and qualitative market benchmark for both European and global market participants. Consequently, the EMF-ECBC would like to express its appreciation of the careful market analysis which has been undertaken by the European Parliament, the European Commission and the European Banking Authority over recent months.

In this context, at its board meeting in Rome on 8 June 2017, the ECBC established two dedicated task forces, the **Task Force on the EU Framework for Covered Bonds** and the **Task Force on European Secured Notes**, to support the relevant institutions at national and European level in their work avoiding any unintended consequences and developing the new ESN asset class.

Speaking on the subject EMF-ECBC Secretary General, Luca Bertalot, said: *"The funding of the real economy is our members' raison d'être and our industry is fully aligned with the objectives of the CMU. We are delighted to see that our initiatives, such as the Covered Bond Label, the European Secured Note and the Energy Efficient Mortgage, are gaining traction within markets and the European Institutions. We are also very supportive of the European Commission's approach towards developing an EU framework for covered bonds. As such, through our task forces and wider network of member experts, we stand ready to offer technical support to the European institutions in the next phase of the construction of the CMU."*

EP Publishes Study on Commission Insolvency Proposal and its Impact on the Protection of Creditors

On 10 June 2017 the Policy Department for Citizens' Rights and Constitutional Affairs of the European Parliament published a Study on The Commission Insolvency Proposal and Its Impact on the Protection of Creditors at the request of the Legal Affairs (JURI) Committee (available here).

The purpose of this Study is to:

- Provide a brief overview of the situation in Europe with a focus on preventive restructuring frameworks in France, Germany, the United Kingdom, Spain, Poland and Italy;
- Clarify the scope of the preventive restructuring frameworks set forth in the Proposal;
- Clarify the application of the recast Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings;
- Highlight various issues of concerned creditors under the Proposal and the necessary amendments of the restructuring frameworks in some EU Member States; and
- Put forward policy recommendations to the legislator with respect to the implementation of the Proposal by MS and to improve further legal certainty and fairness towards creditors.

On a related note, on 7 June 2017 the **European Central Bank (ECB) published an Opinion on the proposal for a directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures** (CON/2017/22).

In general, the ECB expresses the view that a more ambitious action needs to be undertaken to lay a common ground for a substantive harmonisation of Member States' insolvency laws, thus ensuring a more comprehensive harmonisation in the long-term and contributing to a well-functioning Capital Markets Union (CMU).

EBA Publishes Draft Amending Technical Standards on CVA Proxy Spread

On 21 June 2017 the European Banking Authority (EBA) published its draft amending Regulatory Technical Standards (RTS) on credit valuation adjustment (CVA) proxy spread (available here). These RTS propose limited amendments to the Commission Delegated Regulation (EU) No 526/2014 for determining proxy spread and limited smaller portfolios for credit valuation adjustment risk, based on two policy recommendations contained in the EBA's CVA report, published on 25 February 2015. Through the proposed amendments the EBA expects to ensure a more adequate calculation of own funds requirements for CVA risk.

These draft amending RTS propose limited amendments to Delegated Regulation (EU) No 526/2014 and aim at further specifying cases where alternative approaches can be used for the purposes of identifying an appropriate proxy spread and LGD MKT.

The amendments follow on from policy recommendation No 7 and 8 of the CVA Report, published on 25 February 2015, which showed persistent difficulties in determining appropriate proxy spreads and LGD MKT for a large number of counterparties.

The amendments proposed by the EBA are expected to lead to a more adequate calculation of own funds requirements for CVA risk, thus partially remedying the misalignment of the prudential CVA risk framework and the internal management of CVA risk.

ECON Committee Approves Own Initiative Report on Covered Bonds

On 20 June 2017 the Economic and Monetary Affairs (ECON) Committee of the European Parliament approved the Own Initiative Report on Covered Bonds. The final compromise text (available here) passed with 46 votes in favour, 6 against and 1 abstention.

The rapporteur, Bernd Lucke MEP (ECR-DE) is provisionally scheduled make a short presentation on this report in the Plenary session of the European Parliament in Strasbourg on 3 July 2017. The next (and final) step of the legislative process for this own initiative report will then be a vote in the Plenary session on 4 July 2017.

EBA Launches 2016 CVA Risk Monitoring Exercise

On 21 June 2017 the European Banking Authority (EBA) announced that it has put on hold its draft Guidelines on the treatment of credit valuation adjustment (CVA) risk under SREP until further notice, due to continued developments in the CVA risk framework at international level. However, monitoring work continues with the EBAs 2016 CVA risk monitoring exercise, which was launched on the same date (see here). The exercise fits into the EBA mandate to monitor the own funds requirements for CVA risk and follows on from policy recommendation No 4 of the CVA Report. The EBA expects institutions to complete the exercise by 14 September 2017.

The 2016 CVA risk monitoring exercise is the latest data collection exercise to be performed on CVA risk. The first exercise was launched as part of the CVA Report and a second exercise was performed simultaneously to the consultation on the Guidelines on the treatment of CVA risk under SREP. The 2016 CVA monitoring will be based on data with reference date of 31 December 2016.

Due to continued developments in the CVA risk framework at international level, the EBA has put on hold the work on its draft Guidelines on the treatment of CVA risk under SREP until further notice. Instead, the EBA will focus on monitoring the impact of transactions exempted from the CVA risk charge and assessing the impact of the revised international standards on CVA risk, in particular on the scope of exempted transactions, once the standards are made public. Competent authorities will use the outcome of the EBA monitoring in their assessments of institutions' CVA risk performed in accordance with the EBA Guidelines on common procedures and methodologies for SREP (2014). The EBA will closely follow international (BCBS) developments and, if needed, will review whether further guidance is needed to achieve greater consistency in appropriate risk-based supervisory measures.

Similar to the previous exercise, institutions included in the EBA list of institutions, for which the EBA is receiving COREP submissions, will be required by their competent authority to participate in the exercise on a compulsory basis. Relevant institutions will be requested to provide the data required in the accompanying template by 14 September 2017. In order to help institutions fill in the template, instructions are also available on the website.

Last year's exercise involved 171 EU banks representing 28 EU and 1 EEA member states. A short report presenting the main results of the 2015 CVA risk monitoring exercise was also published by the EBA on 21 June 2017 (available here).

BCBS Issues FAQs and Answers on Basel III LCR

On 12 June 2017 the Basel Committee on Banking Supervision (BCBS) issued a second set of frequently asked questions (FAQs) and answers on Basel III's Liquidity Coverage Ratio (LCR) (available here). These respond to a number of interpretation questions received by the Basel Committee related to the January 2013 publication of the LCR standard (see here).

A number of these new FAQs appear to be relevant for the covered bond industry. For instance:

Q16. Loss of funding on ABS, covered bonds and other structured finance (Paragraph 124)

Can Level 1 and Level 2 securities in a collateral pool (for covered bonds or other collateralised own issuances) that become unencumbered in the next 30 days due to maturity of the covered bond be considered as inflows?

RESPONSE – These inflows can be offset against the redemption payment for the maturing secured debt instrument. Such offsetting inflow amount should consider the respective haircuts for Level 2 assets applied to the market value of the asset. Any net inflow should be considered as other contractual cash inflow.

Q.32 Maturing Level 1 and Level 2 assets (Paragraph 155)

(a) Can banks count as inflows the difference between the actual redemption amount of Level 2 securities and the amount considered as HQLA (ie after application of the LCR haircut)?

RESPONSE – No, assets including Level 2 assets that fulfil the requirements of HQLA eligibility shall be considered as such and not as inflows.

(b) Can inflows from maturing Level 2 assets that are excluded from the stock of HQLA due to operational requirements count towards the inflows?

RESPONSE – Yes, maturing assets including Level 1 and Level 2 assets that are not HQLA-eligible due to operational requirements may be considered as inflows.

(c) Can inflows from maturing securities in a collateral pool for covered bonds be considered as inflows?

RESPONSE – Yes, inflows are not subject to operational requirements. Hence, these inflows are not per se excluded from the LCR even if the maturing securities are (or have been) excluded from the stock of HQLA due to being "encumbered" according to paragraph 31. However, if the matured securities need to be substituted in the collateral pool within the 30-day horizon, an "other outflow" per paragraph 141 should be considered amounting to the liquidity value of these securities in the LCR.

To recap, the LCR has been implemented in the EU framework with Delegated Regulation 2015/61 and currently the EMF-ECBC is advocating an equivalent treatment for covered bonds also within the proposed Net Stable Funding Ratio framework.

EC Launches Inception Impact Assessment on the Development of Secondary Markets for NPLs

On 22 June 2017 the European Commission launched an Inception Impact Assessment on the Development of Secondary Markets for Non-Performing Loans (NPLs) (available here).

To recap, the financial crisis and ensuing recessions have left some European banks with high levels of non-performing loans (NPLs), with significant adverse impacts on banks' profitability and their ability to lend, including to SMEs. Under the Financial Services Committee, a dedicated subgroup was established in the second half of 2016. The mandate of the Subgroup was to put forward a report that takes stock of the situation, assess measures already taken and propose policy options that together form the basis of a comprehensive strategy to tackle the NPL problem in the EU. The Commission will contribute to concrete initiatives in this strategy within the specific scope of its competences.

Under one of the policy options, the Commission is invited to develop, a European approach to remove impediments to NPL secondary markets and thus to the transfer and ownership of these assets by banks and non-banks, while safeguarding consumers' rights, as well as to simplify and potentially harmonise the licensing requirements for third-party loan servicers and to take legislative initiative in this respect, as appropriate. The Commission's efforts to improve the functioning of secondary markets for NPLs, as part of the wider efforts to address the NPL issue, are in line with Capital Markets Union (CMU) objectives. This has also been clearly announced in the CMU Mid-term Review Communication as one of the new priority actions going forward.

Covered Bond Label Extends Coverage of Norwegian Market and Enhances Transparency in Sustainable Finance

On 1 June 2017 the Norwegian issuer **Sparebanken Sør** joined the Covered Bond Label taking to eight the number of Norwegian issuers now holding the Label.

On 23 June 2017 **Caja Rural de Navarra** from Spain also joined the Covered Bond Label, using the Label platform to highlight its sustainable covered bonds.

To recap, the Covered Bond Label is a quality Label, of which the primary purpose is to highlight to investors the security and quality of covered bonds, and to further enhance recognition of and trust in the covered bond asset class.

The Covered Bond Label is open to all covered bond programmes that are compliant with the Covered Bond Label Convention and disclose their data by publishing the Harmonised Transparency Template (HTT). More information on all labelled Issuers and the Label itself can be found on the Covered Bond Label website at www.coveredbondlabel.com.

CAJA RURAL DE NAVARRA

SPAREBANKEN SØR

COVERED BOND - LABEL -

FSB Publishes Report on the Financial Stability Implications of FinTech

On 27 June 2017 the Financial Stability Board (FSB) published a report analysing the potential financial stability implications from FinTech (available here) with a view to identifying supervisory and regulatory issues that merit authorities' attention. Ten areas have been identified, of which the following three are seen by the FSB as priorities for international collaboration:

- the need to manage operational risk from third-party service providers;
- mitigating cyber risks; and
- monitoring macrofinancial risks that could emerge as FinTech activities increase.

Addressing these priority areas is seen as essential to supporting authorities' efforts to safeguard financial stability while fostering more inclusive and sustainable finance.

"Regulators need to understand the impact that developments in FinTech can have on financial stability, especially given the rapid rise of innovation in this space," said Carolyn A. Wilkins, Senior Deputy Governor at the Bank of Canada and chair of the FSB's FinTech Issues Group. *"Our report today sets out a clear picture of supervisory and regulatory issues, which the FSB will continue to monitor and discuss going forward."*

The report developed a framework that defines the scope of FinTech activities to be covered and classifies them by their primary economic function. This enables the analysis to be technology neutral. Applying the framework to various case studies then helps to draw out the potential benefits and risks from FinTech.

Potential benefits identified in the report include decentralisation and increased intermediation by non-financial entities; greater efficiency, transparency, competition and resilience of the financial system; and greater financial inclusion and economic growth. Potential risks include institution-specific micro-financial risks that could emerge and system-wide macro-financial risks, for instance increased connectedness and correlation risk.

The report notes the need for the official and private sectors to improve data on FinTech applications, and for regulators to understand how businesses and the market structure are changing. In particular, international bodies and national authorities should take FinTech into account in their risk assessments and regulatory frameworks.

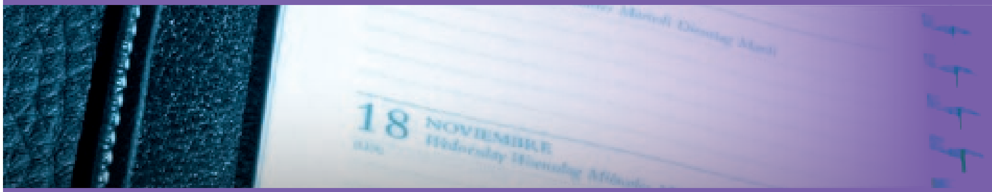
The FSB will continue to monitor and discuss the evolution of the potential financial stability implications of FinTech developments.

New EMF-ECBC Website

As you may already have seen, over the course of recent weeks the EMF-ECBC has started to roll-out its new branding in terms of e-mails, press releases, position papers and event materials, including the use of a new EMF-ECBC logo, typeface and colour scheme. To recap, the purpose of this re-branding is to reinforce the integration of the European Mortgage Federation (EMF) and European Covered Bond Council (ECBC) into a single entity representing the entire value chain of the mortgage credit funding and lending business. The re-branding will continue over the course of the summer and will include, from the autumn onwards, a refreshed newsletter.

As a key element of this re-branding exercise, we are delighted to announce that the **new EMF-ECBC website is now live** and can still be accessed via www.hypo.org *(so there is no need to update any of your existing bookmarks/links)*. The new website is intended to reflect the fresh look of the new branding and to incorporate a more user-friendly and intuitive system of navigation – especially for access on mobile devices. We have also taken the opportunity of this refresh to re-think the structure of the website's content and, where possible, to make this shorter and more direct so that visitors can obtain more information from a quick read. We will be continuing to add to the content of the new website over the coming weeks and months, so please check back on a regular basis for the latest updates.

We hope that you will appreciate the new EMF-ECBC website and enjoy discovering its new structure and content; if you have any comments or questions on it, please do not hesitate to let us know!



AGENDA

JULY 2017

03 > 04/07	European Parliament Plenary Presentation & Vote on the Own Initiative Report on Covered Bonds – Strasbourg
18/07	European Commission Public Hearing on Sustainable Finance – Brussels

DISCLAIMER

All articles in this newsletter reflect the authors' views and do not necessarily represent the views and opinions of the European Mortgage Federation – European Covered Bond Council (EMF-ECBC) and/or its members as a whole.

NEXT EDITION

The EMF-ECBC Secretariat would like to take this opportunity to wish all readers a very enjoyable summer break and to inform you that the next EMF-ECBC newsletter will be published at the end of August 2017.