



# CAPITAL MARKETS UNION

#CMU

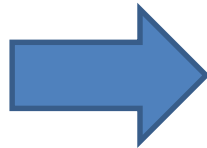
## Covered bonds

*29<sup>th</sup> ECBC Plenary Meeting, Riga – 24 April 2019*

Mattias Levin, European Commission

# 1. Why we proposed legislation

Untapped CMU potential



Leveraging banking capacity to support the wider economy



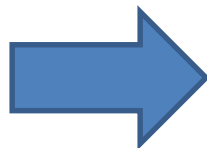
All MS with CB laws

Additional issuance: €342 bn

Up to €2 bn savings for CIs

Up to €1.5 bn overall savings

Preferential prudential treatment granted to different products



Addressing prudential concerns

## 2. Main issues during negotiations

**How to raise the bar while not disrupting national markets**



- Which assets should be eligible?
- How many labels?
- How calibrate new requirements?
  - Liquidity buffer
  - Extendable Maturity Structures (EMS)
  - Scope of preferential treatment and prudential requirements in CRR Art. 129

### Σ Principles-based approach

- Minimum harmonisation of key rules
- Measured increase in prudence

## 3. Looking forward

- **Short-term: implementation**
  - How will Member States transpose?
- **Medium-term: adjusting practice to new requirements**
  - EMS
  - Liquidity buffer...
  - Dedicated public supervision, incl. permissions
- **Long-term: review**
  - Third country regime
  - ESN
  - ...framework conducive to market development?

# Annex

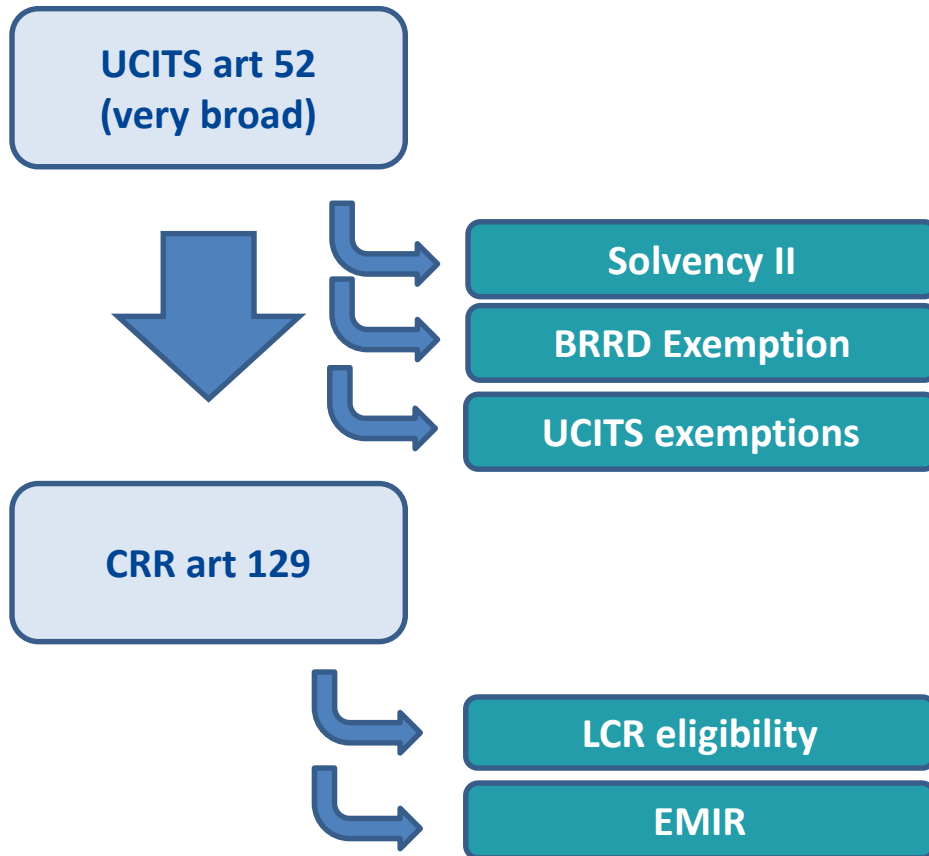
# CAPITAL MARKETS UNION

*The new legislation is part of a broader strategy to strengthen capital markets and encourage investments and lending in the EU. The new rules will boost covered bonds in Member States where markets are less developed and will harmonise the use of this stable and cost-effective source of funding for European banks helping them to lend to the real economy*

**VALDIS DOMBROVSKIS**

Vice-President in charge of Financial Stability,  
Financial Services and Capital Markets Union

# Currently as many EU CB markets as many MSs



# Current EU CB legal framework

Defines the core characteristics of covered bonds (**UCITS art 52**)

Preferential treatment

## **CRR**

(art 129)

Defines requirements for eligibility for capital preferential treatment for banks and lays down the preferential risk weights

## **BRRD**

(art 44(2))

excludes CB from the scope of the bail-in tool

## **Solvency II**

(art 180(1))

preferential capital treatment for insurers investing in CB

## **Liquidity Coverage Ratio**

### **Delegated Act (LCR)**

(artt. 11,12, 13)  
Allows banks to treat CB as liquid assets of level 1 or 2 for calculating liquidity buffer

## **EMIR**

(art 30)

The RTS on risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty provide for a preferential treatment for cover pool derivatives



# The process started before March 2018...

Adoption by COM

NEGOTIATIONS

TRILOGUES

AGREEMENT



March 2018

May 2018

August 2018

Q1 2019

26/02/19

## ...an agreement has been reached in February 2019

## What the legislation consists of

### DIRECTIVE

(defining EU covered bonds)

### REGULATION

(amending art 129 CRR)

## DIRECTIVE

- 1) Structure
- 2) Supervision
- 3) Labels
- 4) Final

## Directive

- Provides common definition of covered bonds
- Single and consistent point of reference for other EU law
- Main elements:
  1. Definition and structural features of CB
  2. Covered bond public supervision
  3. Labels
  4. Final provisions

## DIRECTIVE

- 1) Structure
- 2) Supervision
- 3) Labels
- 4) Final

## The Directive establishes 2 labels

### 1. European Covered Bonds

*Compliant with the Directive*



**DIRECTIVE  
(CBD)**

### 2. European Covered Bonds (Premium)

*Compliant with Art 129 CRR*



**REGULATION  
(129 CRR)**

## DIRECTIVE

- 1) Structure
- 2) Supervision
- 3) Labels
- 4) Final

## EU Covered Bonds

- EU CB can only be issued by EU credit institutions
- Main features:
  - Dual recourse
  - Bankruptcy remoteness
  - Segregation of the cover assets
  - High quality cover assets that cover for all CB liabilities
  - Transparency requirements
  - Liquidity buffer
  - Rules for EMS

## DIRECTIVE

- 1) Structure
- 2) Supervision
- 3) Labels
- 4) Final

## EU Covered Bonds

- Special public supervision performed by a national competent authority
  - granting permissions to issue CBs
  - performing on-going supervision
  - deciding on administrative penalties and remedial measures
- Review for a third country regime
- Transposition and application

REGULATION

- 1) OC
- 2) Exposures
- 3) Additional requirements

# EU Covered Bonds (Premium)

- Complying with the Directive



**EU COVERED BOND  
(PREMIUM)**

- Complying with Regulation

## REGULATION

- 1) OC
- 2) Exposures
- 3) Additional requirements

## EU Covered Bonds (Premium)

- Current requirements in Art. 129 CRR
  - List of eligible assets
  - Transparency requirements (moved to Directive)
  
- Main new elements to amend CRR Art. 129
  - Minimum overcollateralisation
  - Amended rules on exposures to credit institutions
  - Additional strengthened requirements



## When the EU covered bond market will be in place

