

Covered Bonds Directive – Danish transposition

European Covered Bond Council (ECBC)
Implementation Task Force Virtual Meeting

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Current framework

Issue of covered bonds can be carried out by

- Specialised mortgage credit institutions
 - regulated by The Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act
 - Universal banks
 - regulated by The Financial Business Act
 - Specialised ship financing institution, Danish Ship Finance
 - regulated by The Shipping Finance Institution Act
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Transposition process

- Current Danish legislation in overall compliance with the Covered Bond Directive and the amendments of the CRR
 - Transposition consists of targeted amendments to existing regulation
 - Necessary adjustments in Executive Orders related to those Acts
 - A series of transposition meetings has been carried out in 2020 – lead by the Danish FSA and participation from FinanceDenmark and representatives from all issuers in Denmark
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Transposition process - status

- Proposal for an amendment of The Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, The Financial Business Act and The Shipping Finance Institution Act has been drafted
 - Public consultation of the proposal carried out 23 October – 23 November 2020
 - Generally well received
 - Currently subject to scrutiny by the legal service of the Ministry of Justice
 - Expected presentation in Parliament 10 February 2021
 - Suggested to follow transposition deadlines from the CRR – all changes to be applied as of 8 July 2022
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Less substantial changes

- Use of intragroup pooled covered bond structures already in legislation
 - Will be amended slightly to accommodate the Directive requirements – no substantial change to the current use
 - Rules governing extendable maturity structures in universal banks to be clarified to ensure that there is no discretion in relation to an extension
 - Introduction of the requirement for the covered bonds public supervision to cooperate with the resolution authority in the event of resolution of a credit institution issuing covered bonds in order
 - Clarify a minor point on valuation of some physical assets to allow only for market value to be used
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Most substantial changes – overview

- Coverage requirement
 - Overcollateralisation requirement
 - Cover pool liquidity buffer
 - Investor information
 - Authorisation process
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Most substantial changes – coverage and OC

- Coverage requirement
 - Introduction of nominal value
 - Use of option to allow for the use of the exemption in Article 15(7) on close correspondence
 - Overcollateralisation requirement
 - Decided on lower of level 2 %
 - Based on the capital requirements of the CRR to be fulfilled for each cover pool – formalised risk based approach
 - Overcollateralisation level corresponds to the historic losses
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Most substantial changes – liquidity buffer

- Currently liquidity risk is handled under the balancing principle – no separate liquidity requirement
 - The liquidity buffer shall be fulfilled with level 1, level 2A or level 2B assets
 - No use of short-term exposures to credit institutions or short-term deposits
 - Will make use of the options in Article 16(5) and (6)
 - Allow for the calculation of the principal for extendable maturity structures to be based on the final maturity date
 - The liquidity buffer requirement will not apply to covered bonds that are subject to match funding requirements
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Changes to authorisation process

- Under the current authorisation process, authorisation as a specialised mortgage credit institution includes the authorisation to issue covered bonds
 - Will be amended slightly in the transposition making the authorisation as a credit institution and the permission to issue covered bonds two separate permissions
 - Application for an authorisation as a specialised mortgage credit institution in separate process, but mandatory for the specialised mortgage credit institution to obtain a permission to issue covered bonds
 - The authorisation as a specialised mortgage credit institution without the subsequent permission to issue covered bonds would make the credit institution authorisation null
 - Keeping the specialist model but aligning with the Directive requirement
 - Universal banks, specialised mortgage credit institutions and the Danish Ship Finance require separate permission to issue CRR Article 129-compliant covered bonds
 - Therefore, already separate processes - no change due to the transposition.
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Investor information

- The transposition of Article 14 will be committing the Danish FSA to issue an Executive Order on the detailed requirements for investor information
 - The detailed requirements yet to be finalised
 - Intended to be aligned very much with the ECBC Harmonised Transparency Template (HTT)
 - Currently well-known in Denmark and used by all Danish issuers
 - The Executive Order will consider the investor information requirement to be fulfilled for issues where the ECBC HTT is used
 - For issues not being covered by the ECBC HTT there will be a template in the Executive Order to be used
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Investor information

- Based on the assumption that the ECBC HTT can be considered to fulfil the requirement in Article 14
 - DK has raised this question several times with the Commission
 - Specifically asked about the disclosure requirement in relation to credit risk
 - The Danish FSA considers 'credit risk' covered by the ECBC HTT requirements in relation to assets (section B1 and B2)
 - If the Commission considers this not be the case, further clarification of what information needs to be disclosed in relation to 'credit risk' is necessary
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