



# Norwegian covered bond proposal

ECBC Implementation  
Task Force  
11.12.2020

# Norwegian legislation and covered bond model

- Norwegian covered bonds legislation
  - Adopted in 2007
  - Viewed as modern and robust
  - Regulates covered bond entities in Norway – «obligasjoner med fortrinnsrett» or «OMF»
- The Norwegian covered bond model
  - Specialist banking principle
  - Separate legal entities
  - 24 issuers
    - 19 owned by a single bank
    - 5 owned by a group of banks
  - Total volume outstanding NOK 1 470 bn. (approx. 140 bn. EUR)
  - 53 % issued abroad
  - Soft bullet very common

# Norwegian draft proposal



- Working group at the FSA
- Discussions with Finance Norway and the industry
- Finalised 20.12.2019
- Difficulties harmonising due to early deadline
- Further discussions to start next week

# Overcollateralisation

Today: 2 % for all issuers

- Changing the calculation method
  - Derivatives not part of the calculation
  - Issuers shall use the hedged amount in NOK for covered bonds issued in foreign currency
- Minimum level of OC:
  - 5 % OC - residential and commercial real estate
  - 2 % OC - loans to/guarantees from the public sector

# Liquidity requirements

Today: LCR and prudent liquidity management

- FSA proposes to coordinate the LCR and the new 180-day requirement
  - I.e. 30 days LCR and remaining 150 days in the new buffer
  - Does not solve the problem with encumbrance
- Specifies that assets in the cover pool are encumbered
  - Cannot be used to fulfil the LCR
  - To be solved by the Commission
- For the new liquidity buffer: Base soft bullet bonds on the expected maturity date

# Soft bullet and trigger

Today: Discretionary triggers, not regulated

- Extendable maturity covered bonds to be continued
- Triggers should be non-discretionary
- FSA has chosen to postpone the discussion to see if a European standard materialises

# Cover pool monitor

Today: Issuer's auditor

- The FSA and the industry is pleased with today's setup
- The cover pool monitor should be independent and cannot be the issuer's auditor
- The directive opens up for an internal cover pool monitor
- FSA does not recommend an internal solution
  - Cover pool monitor should be external, independent and also a certified public accountant



# Covered bond labels

Today: One type of «OMF», only premium

- 2 types of covered bonds
  - European Covered Bond Premium → OMF «pluss» or OMF premium?
  - European Covered Bond → OMF «standard» or just OMF?
- OMF “pluss”
  - All Norwegian covered bonds in this category (excl. trigger)
- OMF “standard”
  - Not fully regulated in the proposal by the FSA





Finance Norway