

## **EBA work on covered bonds in 2023-2025**

Lars Overby, Head of Risk-Based Metrics Unit, EBA

ECBC Plenary meeting, 13 September, Munich

# Overview



- Upcoming work on Covered Bond Directive
  - Call for advice sent to EBA 28 July 2023
- Basel III / Banking Package
  - EBA roadmap is forthcoming
- A few ESG considerations



## CALL FOR ADVICE ON REVIEW OF COVERED BONDS DIRECTIVE

# European Commission's call for advice to EBA



## Comprehensive assessment of the performance of the framework

- Performance (including credit performance and liquidity) of the covered bond markets
- Assessment of coverage and liquidity requirements mitigation of covered bonds liquidity risks
- Assessment of the CRR preferential treatment (focus on eligibility requirements)
- Assessment of covered bonds contribution to asset encumbrance levels
- Assessment of implementation of CBD in Member States

## Extendable maturities

- Assessment of market developments and risks and benefits

## Third country equivalence

- Assessment of the merits of introducing a third country regime, and of the shape (principles and criteria) of such regime

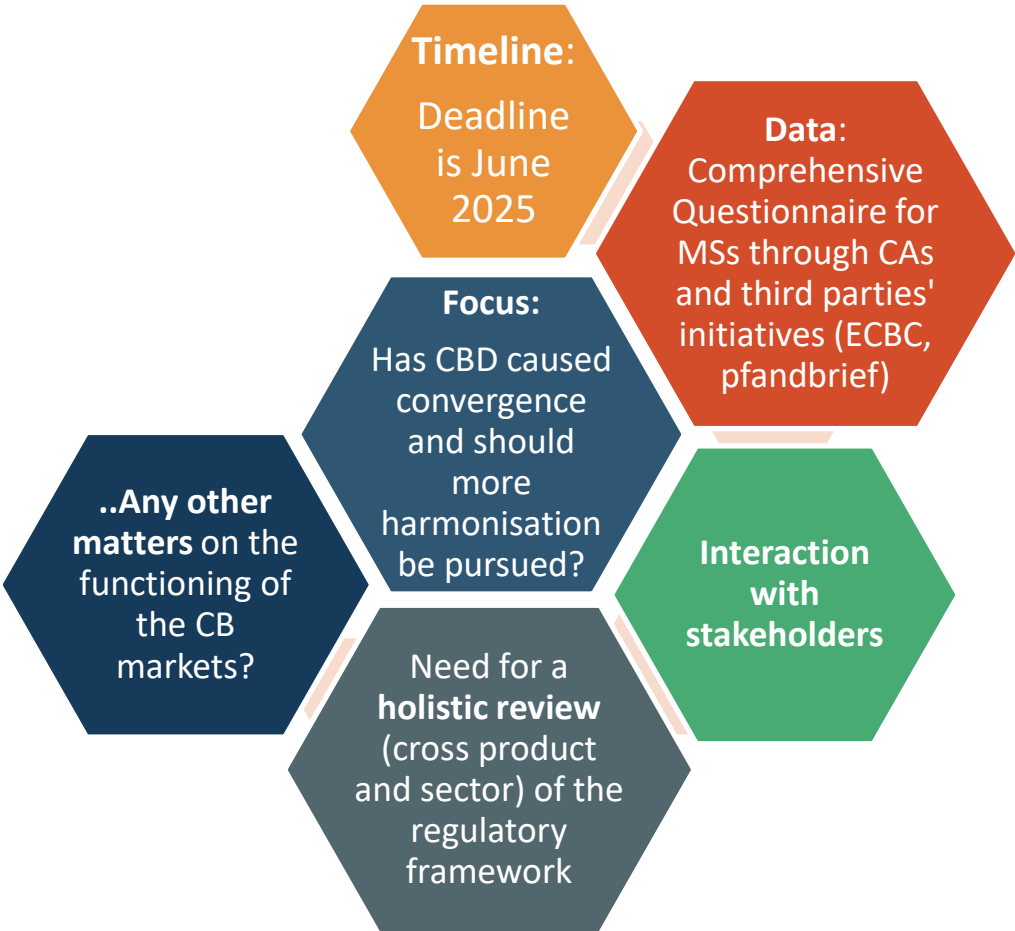
## European Secured Notes

- Assessment of relevance of conclusions of EBA report on ESN of July 2018

## Green covered bonds

- General qualitative analysis of the developments in the green covered bond market (with a specific focus on disclosure aspects)

# EBA response to the Commission’s call for advice



## Green Covered bonds



Voluntary regulatory framework:

**EU Green Bond standard**, based the use of proceeds approach and reflecting EBA advice on treatment of securitisation.

### **Area of focus in the EBA advice to COM**

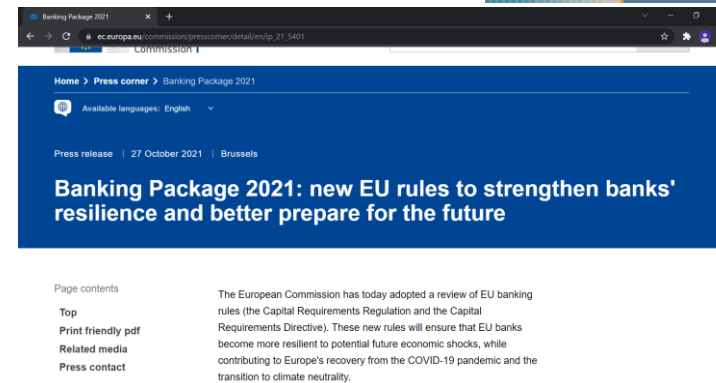
- general qualitative analysis of the developments in the green covered bond market and a specific focus on disclosure aspects
- relevance of the specific treatment for securitisation (and covered bonds?) belong to future analysis that the EBA will be mandated to do under the EU Green Bond Standard

Interlinkages with the Pillar 3 disclosures on ESG risks, and the [March 2023 ESA/ECB joint statement on disclosure on climate change for structured finance products](#)

## BASEL III / BANKING PACKAGE – UPCOMING EBA WORK

# Implementation of Basel III in the EU

- Main components in the proposal
  - Credit risk (SA, IRB and CRM)
  - Market risk (fundamental review of the trading book)
  - Operational risk
  - Output floor
  - Disclosure (including ESG) + reporting
  - Revision of own funds
  - Supervisory powers, SREP (also covering ESG)
  - Governance, including fit and proper and sanctioning
  - Cross border provision of banking services



- **Oct 2021 : Commission Proposal**
- **Nov 2022 : Council General Approach**
- **Feb 2023 : European Parliament report**
- **June 2023: Political Agreement**
- **Until Sept 2023 : Technical work**
- **End 2023/Early 2024: EP Plenary vote**
- **1 Jan 2025: Date of application CRR (+ transposition CRD)**





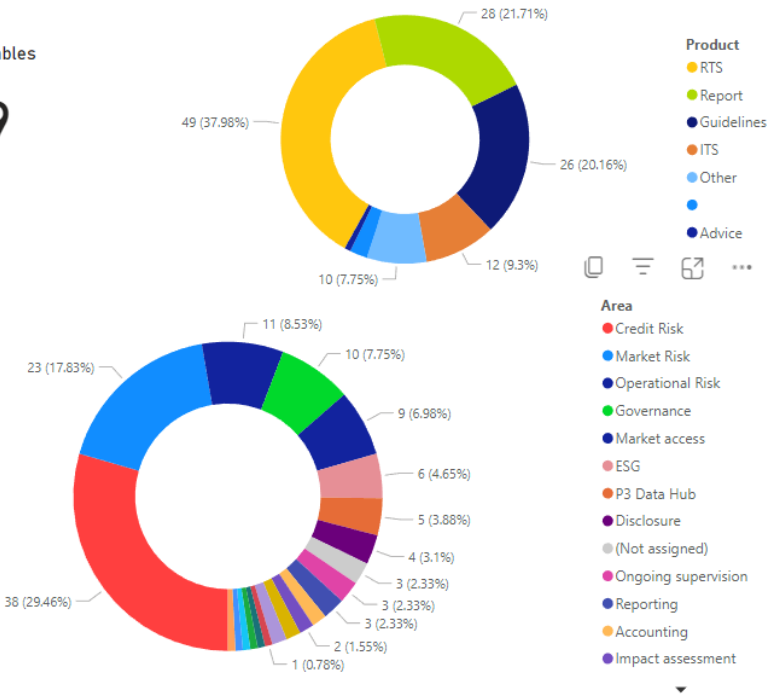
# EBA mandates

The implementation of Basel III package requires the EBA development of around 130 Total deliverables mandates (text not fully finalised) in a broad range of technical areas of which **around 90 regulatory products** (RTS, ITS and guidelines), **30 reports** and **10 other tasks**.

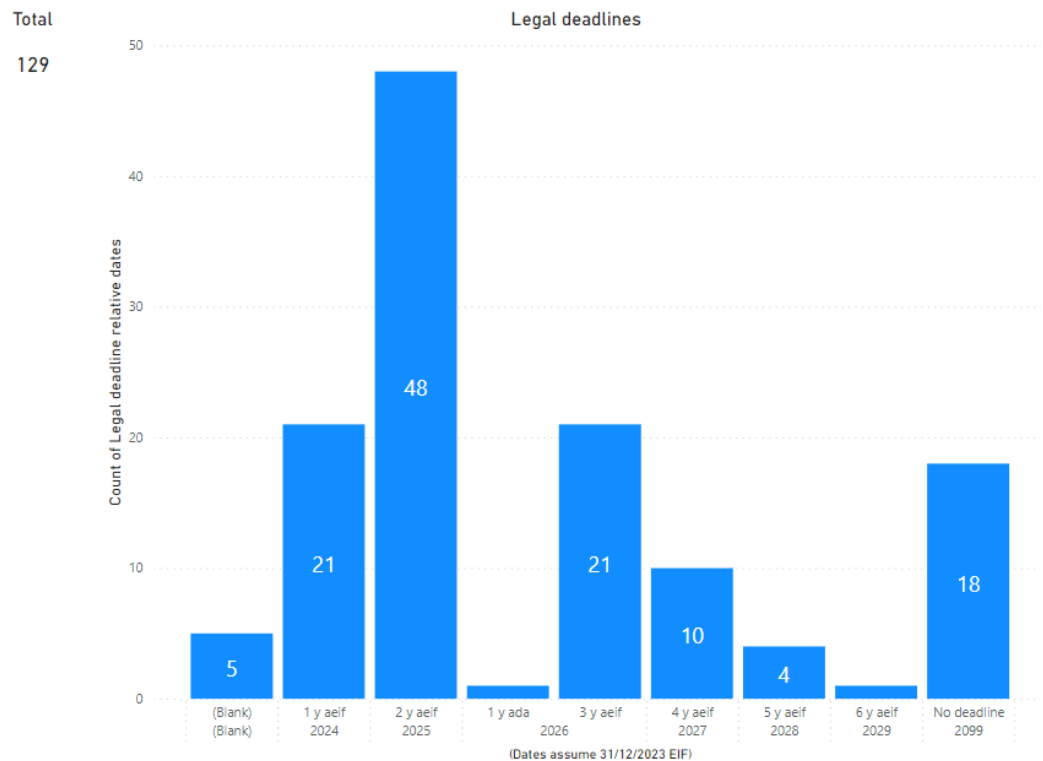
Concerning the **regulatory products**, the majority fall under the areas of credit risk, market risk, market access, governance and operational risk. Around 20 mandates in remaining areas.

Roadmap expected later this year.

129



# Basel 3 implementation plan – current deadlines



Around 130 mandates in total is given to EBA as part of the banking package

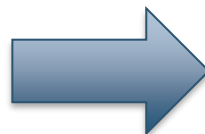
## ESG DEVELOPMENTS IN THE PRUDENTIAL SPACE

# Upcoming report on

## Discussion paper published on 2 May 2022

### Key messages:

- Risk-based approach to handling ESG risks
- ESG risks are not a separate risk category, but a risk driver
- Opens question on whether the world overall has become riskier
- Notes the methodological challenges about capturing ESG risk
- Open about potential messages, but stresses the importance of collecting data and improving ESG risk management practices



## Upcoming report

- Report will be published in second half of 2023
- Positive feedback from respondents
  - General agreement with ESG approach among banks, but some requests for more ambition among other respondents
- Highlighted the methodological constraints on ESG modelling that exists today
- Will make a series of short-term, medium-term and long-term recommendations
- Overall framework does seem robust to incorporate ESG challenges

Questions?



The EBA logo is located in the top left corner. It consists of the letters 'EBA' in a large, white, sans-serif font. To the right of the letters is a small, stylized star icon. The entire logo is set against a dark blue rectangular background.

**EBA**

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Thank you!