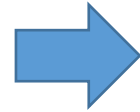
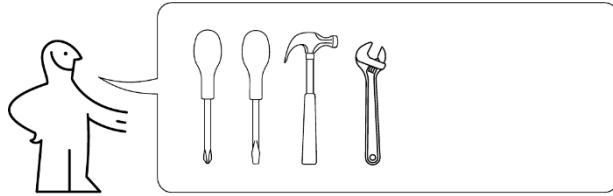


Making a legal framework for covered bonds

Reykjavik, May 2024

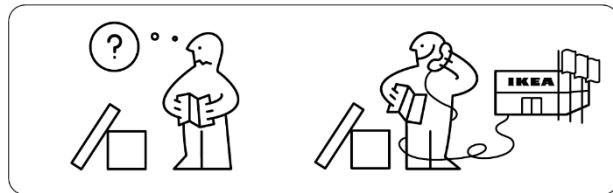
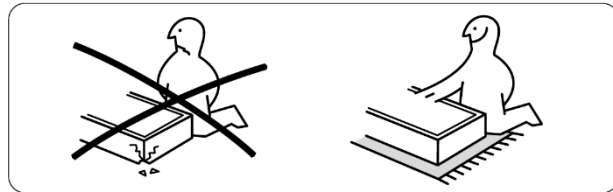
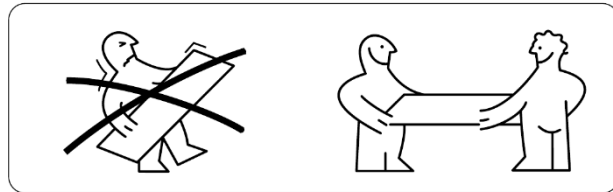
Richard Kemmish Consulting Limited

Building a covered bond framework

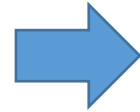
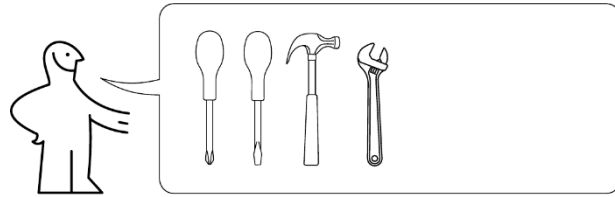


First, you need the right tools

- **Issuers – with incentive to issue**
 - Covered bonds will be more expensive than deposits, repos
 - Regulatory pressure to
 - ALM match (NSFR, 15% of EVE)
 - Regulatory pressure to reduce reliance on deposits
 - Improve financial stability
 - Mortgage markets can grow very rapidly
 - (Poland 2005: €13bn, 2015 €91bn*)
- **Assets**
 - Not enough mortgages? Problems with them?
 - Subsidies?
 - Non-standard valuation, legals, credit standards...)
 - Article 129 or not article 129?



Building a covered bond framework



First, you need the right tools (cont'd)

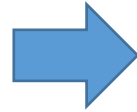
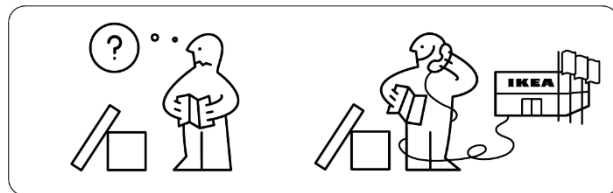
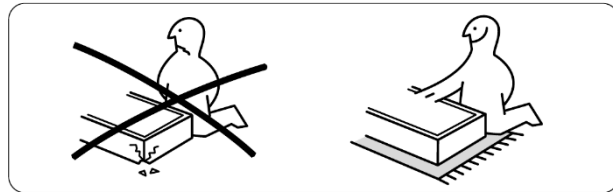
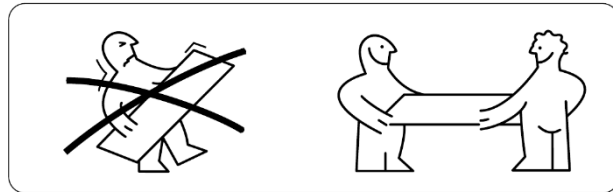
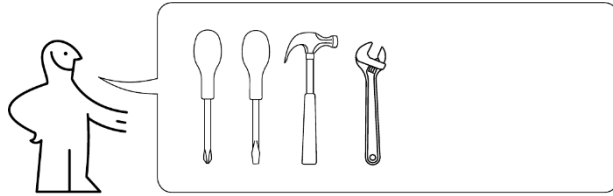
- **Laws**

- Do you need a covered bond law?
 - almost certainly yes
 - Structured covered bonds: without supervision (Japan), with following supervision (UK), with leading supervision (Singapore)
- Conflict with other laws
- Role of contractual terms to address mistakes
- Also...derivatives law? Robust capital markets framework?

- **Domestic Investors (optional)**

- Are CoBo to attract foreign investors or to develop local markets?
- Tool to develop / diversify local capital markets
 - Chicken / egg problem
- Foreign investment on-shore/off-shore problems, convertibility

Building a covered bond framework

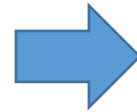
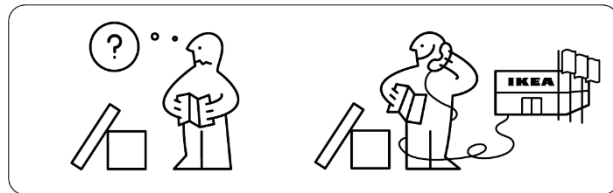
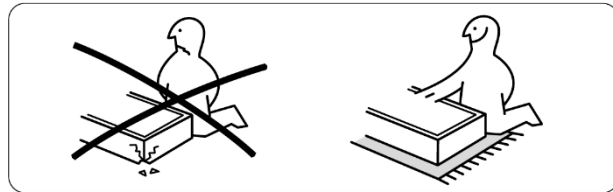
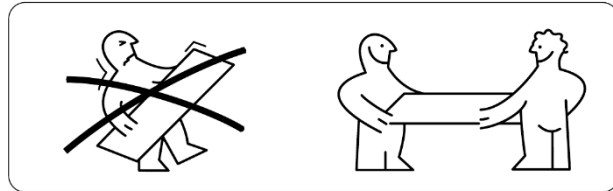
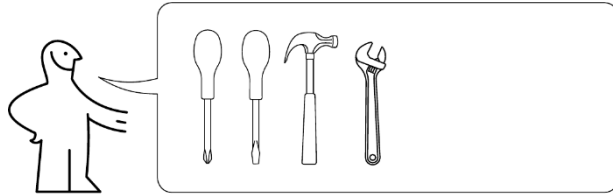


Don't try to do it on your own

- **Who is driving the process?**
 - Industry? Government? or European Commission?
- **Other stakeholders**
 - Public: MoJ, Tax authorities, Regulators
 - Private: Notaries, retail, small banks
- **Who is the regulator?**
 - Is bank regulation and market regulation separated?
 - Potential conflict of interests
 - Will need help drafting 'secondary' rules
 - Will need education
- **Consensus**
 - Consensus = education
 - Consensus first, then drafting

Bad words: "SPV", "Structured finance", "mortgages", "The Big Short"

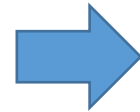
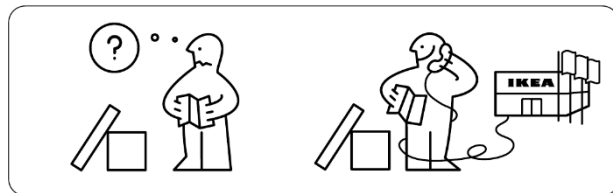
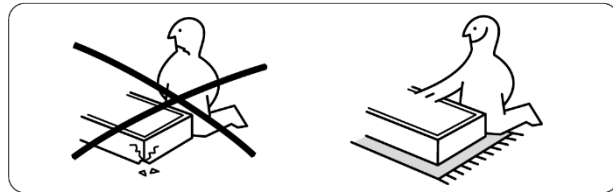
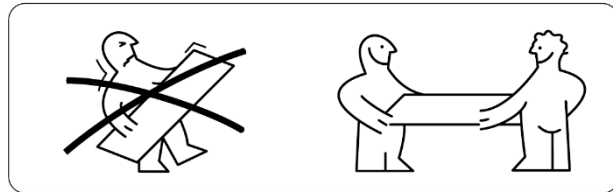
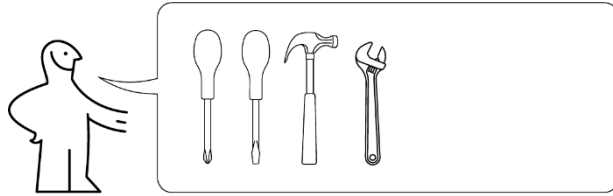
Building a covered bond framework



Avoid stupid mistakes learning experiences

- **Legal structure**
 - On balance sheet / SPV / Special bank?
 - No right answer. It just depends
- **Detailed rules**
 - Base the rules on market practice, not a foreign ideal
 - Just because they do it like this in Germany.....
- **Something for everyone**
 - Different banks have different needs
 - Don't set the bar too high that it excludes some
 - Size, asset criteria, minimum ratings to support features
- **Equivalence**
 - You will want to sell bonds to EU investors

Building a covered bond framework



Help is available

- **The Covered Bond Directive**
 - Principles based
 - Several major areas need national interpretation
 - Basle CB rules \neq directive
- **ECBC**
 - 2 way street: ECBC working groups can help...
 -investors really want to hear about new countries
- **IFIs**
 - EBRD, IFC, others under technical cooperation framework
 - Also, local currency investors
 - Also, potential derivative providers
- **Rating agencies**
 - Do they already rate banks in country?
 - Do they have national rating scales?
 - Very helpful, very approachable!

Questions?

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