

## **1.6 THE SUCCESS STORY OF THE COVERED BONDS DIRECTIVE: WHAT'S NEXT? EBA CALL FOR ADVICE**

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### **INTRODUCTION**

Within the broader vision of the Capital Markets Union, the harmonisation of covered bond frameworks stands out as one of the EU's more tangible regulatory achievements. The 2019 adoption of the Covered Bond Directive (CBD) marked a critical step in aligning national regimes under a shared set of principles, designed to enhance transparency, safeguard investor confidence, and deepen the integration of EU capital markets.

Article 31 of the Directive anticipated the need for reflection and adaptation. It required the European Commission (EC), working closely with the European Banking Authority (EBA), to assess how the framework is functioning in practice. In mid-2023, the EC issued a formal Call for Advice (CfA), scope of which included an assessment of the merits of introducing a third country covered bond regime (see article 1.8), as well as of the possibility of introducing a dual-recourse instrument named European Secured Note ("ESN") (see Article 1.2 "Supporting the real economy, SME financing, securitisation and ESN"). The report is reportedly expected to be published at the end of the summer of 2025, with EBA expected to provide both technical assessments and, where relevant, regulatory recommendations.

Specifically on covered bonds, the use of extendable maturity structures, once a niche design feature, has gained notable traction across several jurisdictions. This has prompted a closer examination of their prudential implications, especially under stressed conditions. In parallel to this, EBA has been assessing how institutions implementing the CBD's liquidity buffer requirements, including whether these provisions are proving effective in mitigating funding liquidity risk. Attention is also being devoted to minimum overcollateralization requirements and how suitable are the CBD's baseline thresholds, and finally, as the framework enters its sixth year of operation, also to how widely the "European Covered Bond" label has been adopted, how it is perceived by market participants, and whether it is delivering the intended benefits in terms of transparency and market differentiation.

This article explores each of these evolving themes, contextualizing them within the broader objectives of the CBD and the growing maturity of Europe's covered bond market.

### **TRIGGERS FOR EXTENDABLE MATURITIES**

As part of the harmonisation effort, the CBD introduced for the first time European-wide legislation for the concept of extendable maturities, and in particular the need to harmonise the various extension options that many covered bond programmes had contractually introduced. To assure investor protection, Art.17 of the CBD clearly outlines the requirements issuers need to meet to be able to issue covered bonds with extendable maturities. Namely, the CBD requires Member States to include objective triggers specified in national law, and not at the discretion of the issuer, as conditions for covered bonds to extend.

Looking at how the extension features have been transposed into national covered bond frameworks, we can group the triggers into two main groups: (i) countries where the extension is a tool available for the covered pool administrator to avoid the insolvency of the issuing entity, and (ii) countries where the extension can occur, or be decided upon, prior to the insolvency of the issuing bank, and will be triggered simply via non-payment of principal or interest on the covered bonds, even if still subject to conditions. It is not surprising that each Member State has identified slightly different triggers; finding one solution fits all would have been arduous mainly due to the fact that across Member States we have at least three covered bond issuance models: ring-fencing on balance sheet, specialist banking model and SPV guarantor structure.

As part of the CfA, EBA has been mandated to assess if extension features are sufficiently disclosed to allow investors to assess the risk and benefits of extendable covered bonds. Furthermore, EBA are considering if more harmonisation is required when it comes to identifying the extension triggers. Should the CBD prescribe what the objective triggers should be?

### **LIQUIDITY BUFFER**

Linked to the maturity extension triggers is the calculation of the liquidity buffer while Art.16 comma 2 of the CBD prescribes how the liquidity buffer should be calculated stating that the cover pool liquidity buffer shall cover the maximum cumulative net liquidity outflow over the next 180 days, discretion was left to the national regulators to assess if the expected or the extended maturity date should be considered when including principal payments in the programme outflows. We focused our analysis on the top 12 Member States by covered bond issuance volumes and can report that only 3 countries being Denmark, Germany and Spain include covered bond principal payments as outflows at all times in the liquidity buffer calculation while the other 9 all allow issuers to calculate the liquidity buffer using the extended maturity date in case of soft bullet or conditional pass-through covered bonds.

The liquidity buffer calculation is another feature that the EBA is scrutinizing as part of its mandate from the EC. In particular, EBA is assessing how each EEA member state has exercised its discretion when implementing Art.16 CBD with regards to the inclusion on principal 180 days before the expected or the extended maturity date. As mentioned above it is clear that most of the EEA countries have opted to use the extended maturity date in the calculation of the buffer, however if this is the case, EBA is querying if other liquidity mitigants should be in place.

### **MINIMUM OVERCOLLATERALIZATION**

Another requirement that was left to transpose at the national regulators' discretion was the minimum overcollateralization amount. Regulation (EU) 2019/2160 allows national regulators to set the minimum level of overcollateralization between 2% and 5%. Our analysis shows that various Member States have introduced distinct levels of overcollateralization for different types of cover pool assets, for example in Germany, the nominal overcollateralization required is 2% if the cover pool assets are either mortgages or public sector assets while for shipping and aircraft cover pools the overcollateralization requirement is 5%. Focusing on cover pools backed by residential mortgages, out of the 12 jurisdictions assessed, Denmark, Germany<sup>1</sup>, Sweden, Austria and Finland have transposed a 2% minimum overcollateralization amount while for the remaining seven (ie France, Spain, Netherlands, Italy, Norway, Belgium and Portugal) require a 5% overcollateralization amount. It is interesting to see how in some jurisdictions the statutory overcollateralization is higher than what the rating agencies require to assign the rating to the covered bond.

### **LABELLING**

Finally, when looking at how each Member State has transposed the labelling requirement (Art.27 CBD) it is clear that each national regulator has focused on giving the ability to their issuers to issue European Covered Bonds (Premium) or European Covered Bonds (Ordinary). European Covered Bonds (Premium) are covered bonds which are compliant with both the CBD and Art. 129 of the Capital Requirements Regulation (CRR) while European Covered Bond (Ordinary) only comply with the requirements of the CBD. Furthermore, we note that of the 12 Member States analysed none seem to have transposed the ability to issue European Covered Bonds backed by assets such as auto loans or public undertakings. Finally, we have seen divergence amongst Member States on how grandfathered covered bonds should be labelled, there are some jurisdictions like Spain and Belgium where once the covered bond programmes have been updated to become CBD and CRR compliant, all covered bonds issued from the programme pre or post 8 July 2022 have been/can be labelled as European Covered

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1 The German Pfandbriefe Law also requires an additional OC of 2% on a net present value basis.

Issuer Country	OC Requirement	Liquidity Buffer Calculation	Extension Triggers
Denmark	2% nominal 2% nominal 2% nominal CRR Compliant - Residential CRR Compliant - Commercial CRR Compliant - Ships	> Principal included at all times	> A refinancing failure trigger and an interest rate trigger
Germany	2% NPV + Nominal 2% 2% NPV + Nominal 2% 5% NPV + Nominal 5% 5% NPV + Nominal 5% Public Sector Mortgage Ship Aircraft	> Principal included at all times	> Following an Issuer bankruptcy/resolution the cover pool administrator may decide to extend
France	5% nominal 5% nominal All types	> If the Issuer issues soft bullet covered bonds then the extended maturity date will be used to calculate the liquidity buffer	> Issuer bankruptcy/resolution > Lack of liquidity: breach of liquidity rules > Issuer failure to pay
Spain	5% nominal 5% nominal Mortgage Public Sector	> For soft bullet covered bonds, the final maturity date is used to calculate the liquidity buffer	> Issuer bankruptcy/resolution > Lack of liquidity: breach of liquidity rules > Other: The declaration of non-viability of the issuer in accordance with Art. 8 of Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment services firms The existence of serious disturbances affecting the national financial markets, where this has been assessed by the Macroeconomic Authority Financial Stability Board (AMCESFI) by means of a public communication.
Sweden	2% nominal and NPV All types	> If the Issuer issues soft bullet covered bonds then the extended maturity date will be used to calculate the liquidity buffer	> The maturity may be extended subject to such extension being permitted by the Swedish FSA as a result of it being deemed likely that the extension will prevent insolvency.
Netherlands	5% nominal Taking CRR LTV cut-off limits into account	> Calculation of the net liquidity outflow shall be assumed that the principal amount of the covered bonds is to be repaid on the extended maturity date	> Issuer bankruptcy/resolution > Issuer failure to pay
Italy	5% nominal Residential	> Principal included only if covered bonds extend	> Issuer event of default (includes failure to pay) > The Guarantor has insufficient moneys available under the Priority of Payments to pay the guaranteed amounts corresponding to the final redemption amount in full, in respect of the relevant series of OBG
Norway	5% nominal 2% nominal Mortgage or commercial real estate Public sector	> Calculation of the liquidity buffer requirement for covered bonds allowing for maturity extensions may be based on the extended maturity date	> Issuer bankruptcy/resolution > Other > The Issuer is likely to fail in the near future and there is no reasonable prospect that any alternative measures can prevent the issuer from failing.
Austria	2% nominal (or optional 2% PV) All types	> The liquidity buffer requirement for covered bonds is calculated based on the contractual final maturity date, or the extended maturity date if the extension has already been triggered	> Only under issuer insolvency it is at the discretion of the special trustee to trigger a maturity extension
Finland	2% market value 5% market value If CRR 129 article 3a met If not met	> Calculation of the liquidity buffer requirement for covered bonds allowing for maturity extensions may be based on the extended maturity date	> Lack of liquidity; actual/potential breach of liquidity rules > Other: Issuer unable to obtain conventional long-term funding
Belgium	5% value of cover asset basis On a value of Cover Asset basis	> If the Issuer issues soft bullet covered bonds then the extended maturity date will be used to calculate the liquidity buffer	> Issuer bankruptcy/resolution > Issuer failure to pay
Portugal	5% nominal 10% nominal 10% nominal Mortgages and public sector (CRR Compliant)* Mortgages (CRR Compliant) backed by commercial mortgages allowing maximum LTV of 70%* Public Sector (non-CRR-compliant) * pursuant to CRR requirements	> Principal included only if covered bonds extend	> Issuer failure to pay > Other: Withdrawal of the issuer's banking licence. CMVM can object to maturity extension

Source: <https://compare.coveredbondlabel.com/frameworks>

Bond (Premium) while in most other jurisdictions only covered bonds issued post the update of the programme to comply with the new covered bond package can benefit from the European Covered Bond (Premium) label.

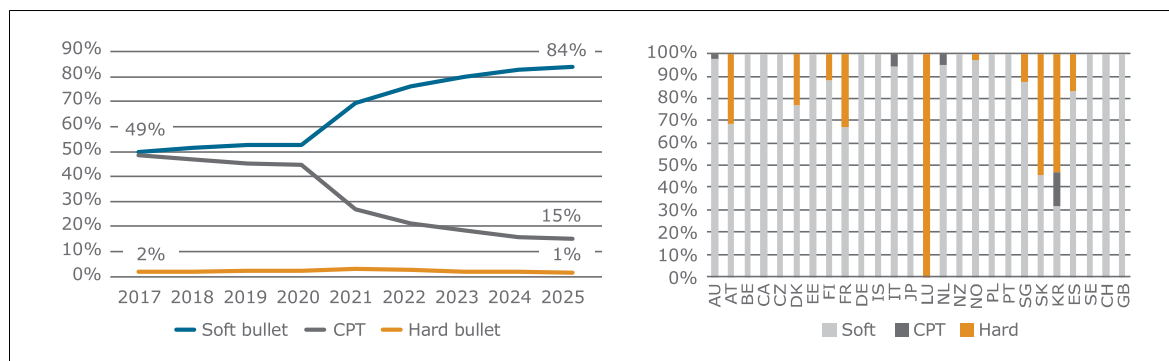
### HOW THE CBD IS SHAPING THE MARKET

The sections that follow give an overview of some of the changes introduced via the CBD and how they are shaping the covered bond market.

#### Soft bullet dominant structure

One of the key features of the new CBD was the inclusion of conditions for extendable maturity structures. This was likely due to the emergence in the market of covered bonds with extendable maturities, either in soft bullet or conditional pass-through (CPT) format, over the past years. Indeed, already back in 2017, 49% of euro bench-mark covered bonds in the iBoxx index had a soft bullet structure, while 1.8% had a CPT structure, leaving 49% of traditional hard bullet covered bonds. In June 2025, only 15% of hard bullet covered bonds remained in the iBoxx euro covered bond index, while 84% of the bonds in the index were soft bullets and 1.5% CPT covered bonds. So, the transposition of the CBD into national covered bond laws has resulted in a further rise in the share of covered bonds with extendable maturities, now that an increasing number of countries have included the possibility for issuers to issue covered bonds with extendable maturities. German Pfandbriefe, which account for 21% of the total index, moved, for instance, from hard to soft bullets in 2021. Overall, the difference between the share of hard and soft bullet covered bonds in the total index widened from 0% at the end of 2017 to 69% in June 2025.

> FIGURE 1: OUTSTANDING AMOUNTS OF COVERED BONDS IN IBOXX EURO COVERED BOND INDEX BY MATURITY STRUCTURE OVER THE YEARS (LEFT, % SHARE IN TOTAL) AND BY COUNTRY (JUNE INDEX, % SHARE)



Source: Bloomberg, ABN AMRO, 2025 data is June index

A breakdown of outstanding covered bonds by maturity type and country shows that only Luxembourg has only hard bullet covered bonds outstanding (but only one bond as well), while in Spain and South Korea slightly more than 50% of outstanding covered bonds are still in hard bullet format. Austria and France are also jurisdictions where around one third of outstanding euro benchmark covered bonds are hard bullets. But most jurisdictions (60%) that are included in the index have only soft bullet covered bonds outstanding, while some (three in total) have a combination of only soft bullet and CPT covered bonds. Interesting in this respect are the Netherlands, where in 2013 the first CPT covered bond was issued. However, all the issuers that initially opted for this structure have now switched to soft bullet covered bonds. This has more than halved the share of outstanding Dutch CPT covered bonds in total Dutch covered bonds in the index to 5% between 2017 and 2025 and this share will move to zero over time.

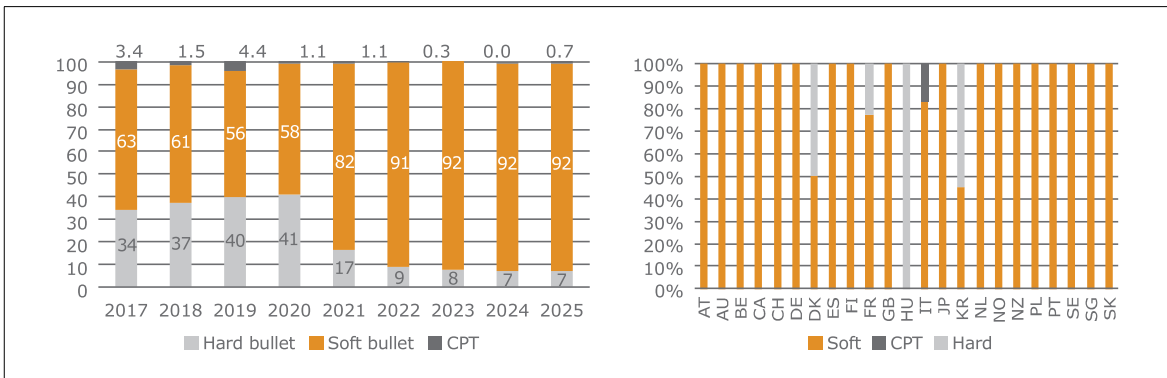
As said, the CBD has stimulated more and more countries to embrace the maturity extension structure when transposing the CBD into national law. As a result, soft bullet covered bonds will further enlarge their footprint,



with CPT covered bonds slowly disappearing. This was clearly visible in the issuance data. In 2020, 58% of the total volume of new supply were soft bullet covered bonds, while still 41% had a hard bullet structure.

Last year, the share of soft bullet covered bonds in total issuance rose to 92%, with 7% having a hard bullet structure and 1% a CPT structure. At the time of writing, these shares have not changed, indicating that soft bullets have become by far the dominant structure in the covered bond market. Moreover, hard bullet covered bonds will remain to be issued by mainly French issuers that have been committed to hard bullet structure, while one Hungarian issuer issued an inaugural euro benchmark covered bond in hard bullet format in June 2025.

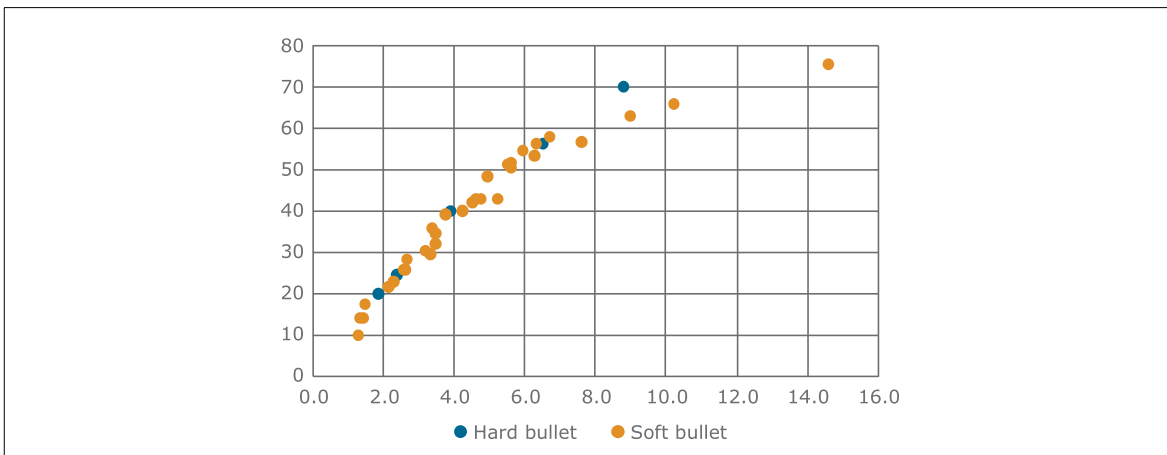
> FIGURE 2: NEW ISSUANCES OF COVERED BONDS IN iBoxx EURO COVERED BOND INDEX BY MATURITY STRUCTURE OVER THE YEARS (LEFT, % IN TOTAL) AND BY COUNTRY (IN H1 2025, % SHARE)



Source: Bloomberg, ABN AMRO

The increasing dominance of soft bullet covered bonds has gone hand in hand with investor confidence in investing in covered bonds with maturity extension features. A couple of issuers have both hard and soft bullet covered bonds in the iBoxx index, which allows for a good comparison of any price differences between both structures. The chart below, taken from a French issuer, shows that there seems to be no price difference between hard and soft bullet covered bonds, underlining that investors do not see any difference in the risks attached to these bonds. A similar picture arises when looking at other issuers. As such, it seems that soft bullet covered bonds will remain the standard of the covered bond market, as both issuers and investors appreciate the structure.

> FIGURE 3: PRICING SOFT BULLET COVERED BONDS OF ONE FRENCH ISSUER, X-AXIS IS YEARS-TO-MODIFIED DURATION, Y-AXIS: Z-SPREADS IN BPS



Source: Bloomberg, ABN AMRO

### **Smooth transition to Premium Label**

The transposition of the new CBD in national laws was a lengthy process. Regulators in some countries only released all details of the updated covered bond framework just ahead of the CBD becoming effective as of 8 July 2022, while in some other countries the details were published even months after the deadline passed. Still, the transition to the new regime has gone smoothly. The first Premium-labelled euro benchmark covered bond was issued on 18 July 2022 by German bank LBBW and the covered bond market has welcomed many more since then, with the first Portuguese and Italian Premium covered bonds arriving in April and June 2023. Almost all euro benchmark covered bonds that were issued after 8 July 2022 have the Premium label, while in some countries also covered bonds issued before 8 July 2022 have been labelled Premium following an update of the issuers' covered bond programmes. As such, a large portion of the index already consists of Premium-labelled covered bonds, and this will only grow over time.

### **CONCLUSION**

In a Union of 27 member states with vastly different legal traditions and covered bond legacies, some spanning centuries already, others scarcely decades, harmonisation once seemed a lofty goal. Yet, with the adoption and full transposition of the Covered Bond Directive (CBD), what was once ambitious has become a resounding regulatory and market success. The principle-based architecture of the CBD, combined with the European Commission's deliberate engagement of industry expertise, notably through the ECBC and dedicated working groups, has proven both pragmatic and visionary.

The Directive has helped shape a common understanding of covered bonds, while allowing for measured national discretion in areas such as overcollateralisation, liquidity buffers, and maturity extensions. Its influence is visible in the now-dominant role of soft bullet structures, the widespread uptake of the "Premium" label, and the broad investor acceptance of these innovations. Yet, the journey is not complete.

As EBA finalises its response to the Commission's Call for Advice, with expected insights on extension triggers, liquidity risk mitigants, and the transparency of structural features, the CBD enters a new phase of fine-tuning. The forthcoming report will assess whether this foundational framework can evolve further, potentially accommodating third-country regimes or even the introduction of a new dual-recourse instrument, the European Secured Note (ESN).

Against a backdrop of shifting geopolitical realities and persistent financial market fragmentation the Savings and Investment Union is currently seeking to address, the CBD stands as a model of cooperative regulatory progress. Its legacy may well lie not only in the harmonisation it achieved, but in the institutionalised dialogue it fostered between regulators, legislators, and market participants, and not least in its capacity to adapt with cohesion to what comes next.