1.6 THE SUCCESS STORY OF THE COVERED BONDS DIRECTIVE: WHAT SHOULD WE EXPECT NEXT?

By Elena Bortolotti, Chairwoman of the ECBC Rating Agency Approaches Working Group and Natixis,
Joost Beaumont, Chairman of the ECBC Statistics & Data Working Group and ABN AMRO,
Claudio Domingues, Millennium BCP and Antonio Farina, Standard & Poors

INTRODUCTION

Few areas of EU financial regulation can claim the same coherence and market acceptance as the covered bond framework. The 2019 Covered Bond Directive (CBD or Directive) brought national regimes under a shared architectural logic – consistent standards on asset quality, liquidity, overcollateralisation and public supervision – while preserving the market variety that has long characterised the product across jurisdictions.

Article 31 of the Directive was designed to ensure its performance would not go unexamined. It mandated the European Commission (EC), working closely with the EBA, to assess how the rules were functioning in practice and report back to the co-legislators. Acting on a formal Call for Advice (CfA) issued in July 2023, the EBA published its advice on 23 September 2025. This was the first systematic review of the framework since transposition was completed. The Commission, which was required to submit its own report to the European Parliament and Council by July 2025, is understood to still be preparing it, with any legislative follow-up to be determined.

The EBA's headline conclusion is unambiguous: the framework is working. Across harmonisation, investor protection, CBD/CRR alignment and scope, the advice confirms that the architecture put in place by the CBD has broadly delivered on its objectives. Where the EBA identifies divergences, these are largely a function of the Directive's principle-based design, which was an intentional feature and not an oversight. The recommendations that follow are correspondingly targeted. On cover pool assets, it proposes restricting eligible categories to those defined under Article 129 CRR, tidying up provisions that have seen negligible practical use. On extendable maturity structures – with soft bullet maturities now firmly one of the market standards – it calls for extension triggers to be clearly and objectively defined in national law, bringing greater supervisory consistency to soft bullet mechanisms. Overcollateralisation thresholds, liquidity buffer effectiveness and the treatment of derivatives in cover pools each attract refinements rather than structural overhaul.

On the larger questions, the EBA endorses, even if with conditions, a third-country equivalence regime, and calls for a reopening of the European Secured Notes (ESNs) debate subject to a renewed political interest following the first issuance of the instrument in June 2026. Finally, ESG disclosure in cover pools is also addressed, with targeted proposals on climate risk metrics for immovable property assets.

As we await whether the EC will accompany its report with legislative proposals, the overall message from the EBA seems one of calibrated continuity. The sections that follow examines the state of play across five areas where the advice is consequential: extendable maturity features, liquidity buffer requirements, the European Covered Bond label, the treatment of derivatives in cover pools, and the proposed third-country equivalence regime. Furthermore, we have included a section on how the CBD has reshaped the covered bond market and preferred issuance formats.

EXTENDABLE MATURITIES FEATURES

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, that are 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 cover 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 since across Member States we have at least three covered bond issuance models: ring-fencing on balance sheet, specialist banking model and SPV guarantor structure.

The EBA, on the other hand, found that the circumstances that initiate an extension process prior to the issuer's insolvency are often unclear and left to the discretion of the issuer. Therefore, it recommends Member States define clearly the extension triggers with an objective and finite list of events, furthermore, suggesting that the National Competent Authorities (NCAs) perform an assessment of the involvement of the issuer before the realisation of the extension trigger, if the extension can occur prior to the issuer's insolvency. Finally, the EBA suggests the need to introduce requirements aimed at involving investors in the running-up of an extension with the aim of performing an unlikely to pay assessment. It will be interesting to see what the EC decides and in fact if it will require more harmonisation and standardisation.

LIQUIDITY BUFFER REQUIREMENTS

Linked to the maturity extension triggers is the calculation of the liquidity buffer while Art.16 paragraph 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 requirement introduced in Art.16 of the CBD was another feature under scrutiny in the EBA report. The EBA focused on the discretion used when calculating the buffer and in particular the inclusion of principal outflows. The EBA's recommendation is to introduce additional conditions to continue using the discretion prior to an Issuer event with the aim of guaranteeing sufficient liquidity in the interest of the investor. Furthermore, where an extension trigger could be used prior to the issuer's insolvency, the EBA suggests introducing a protection scheme or a plan to replenish the buffer in case it has been depleted.

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 in 5%. Focusing on cover pools backed by residential mortgages, out of the 12 jurisdictions assessed, Denmark, Germany, Sweden, Austria and Finland have transposed a 2% minimum overcollateralization amount while for the remaining seven (i.e. France, Spain, Netherlands, Italy, Norway, Belgium and Portugal) require a 5% overcollateralization amount. It is worth noting how in some jurisdictions the statutory overcollateralization is higher than what the rating agencies require to assign the rating to the covered bond.

EUROPEAN COVERED BOND LABEL

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 complaint 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 CDB. 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 (which continue to benefit from preferential risk-weighting) 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 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.

The transposition of the CBD in national laws also implied that regulators needed to publish publicly the details of covered bonds/covered bond programmes in their respective jurisdictions, including details of the label that they carry. Most covered bonds have the Premium Label given that they comply with the CBD as well as article 129 of the CRR. Overall, the transition to the Premium Label has gone smoothly, with the first Premium-labelled euro benchmark covered bond was issued on 18 July 2022 by German bank LBBW and many more since then. In fact, 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.

TREATMENT OF DERIVATIVES

The use of derivatives in covered bond programmes across Member States varies and is very dependent on the type of issuance structure as well as on the rating of the issuer. Some programmes still cater for both asset and liability swaps while on the opposite spectrum we have programmes with no derivatives in place at all. Furthermore, there are programmes where the swaps are internal and others where the swapcounterparty is an external eligible counterparty.

While the EBA acknowledges that covered bond issuers use derivatives solely for risk hedging purposes in accordance with Article 11 of the CBD, it is concerned about the potential consequences of early termination of these contracts in the event of issuer insolvency.

The EBA's key recommendations are as follows:

1. Eligible Collateral: The EBA recommends that counterparties post collateral either in cash or in highly liquid securities issued by Credit Quality Step 1 (CQS 1) central governments.
2. Collateral Segregation: The EBA advises that cash collateral should be held in a registered, segregated account with an independent party, rather than simply being registered within the cover pool.
3. Internal Hedges: The EBA recommends that a committed substitute counterparty be available to step into any internal hedge derivative contract that is terminated, or alternatively, that the internal hedge be replaced with a hedge from an external eligible counterparty. This substitution should replicate the material terms of the original internal hedge and must occur if the credit quality step of the internal hedge's counterparty to the covered bond estate or segregation SPV falls below CQS 2.

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
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 Macroprudential 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	> Calculation of the liquidity buffer requirement for covered bonds allowing for maturity extensions may be based on the extended maturity date	> Issuer bankruptcy/resolution
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

Some of these proposals may negatively affect issuance volumes and risk hedging capabilities. Maintaining current rating levels would likely require higher overcollateralisation, increasing balance sheet encumbrance. These impacts would be especially pronounced in lower-rated jurisdictions and those outside the Euro Area, where derivatives are also used to mitigate currency risks when issuing in euros.

THIRD-COUNTRY EQUIVALENCE

There have been a lot of discussions around third-country equivalence and what the requirements will be for non EEA covered bonds to be considered as equivalent. The EBA supports introducing an equivalence regime for covered bonds from third countries. Currently, covered bonds issued by non-EU credit institutions and purchased by EU credit institutions receive less favorable regulatory treatment than those issued and purchased within the EU. An equivalence decision would allow eligible third-country covered bonds to benefit from reduced risk weights and classification as level 2A assets for LCR purposes, without requiring individual assessments (see also: "Covered Bonds: A Global Perspective").

HOW THE CBD HAS RESHAPED THE MARKET

The section that follows gives an overview of how the extension formats introduced via the CBD are shaping the covered bond market.

Soft bullet dominant structure

One of the key features of the CBD was the inclusion of conditions governing extendable maturity structures. These conditions were incorporated into the CfA to assess whether these extension features are sufficiently disclosed, allowing investors to properly assess both the risks and benefits of extendable covered bonds.

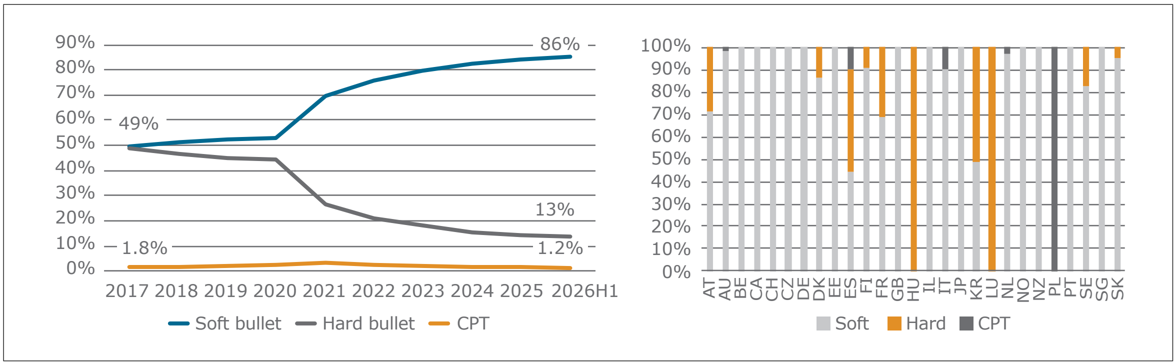
Below, we examine the current market landscape for covered bonds with extendable maturities, as well as the investor perspective. The data shows that the share of covered bonds with extendable maturities—either in soft bullet or conditional pass-through (CPT) format—had already begun to increase prior to the completion of the CBD in 2019. As early as 2017, 49% of euro benchmark covered bonds in the iBoxx index featured a soft bullet structure, while 1.8% were issued in CPT format, leaving roughly 49% as traditional hard bullet covered bonds.

By June 2026, however, the composition had shifted dramatically. Hard bullet covered bonds accounted for only 13% of the iBoxx euro covered bond index, while soft bullet structures dominated with an 86% share, and CPT structures remaining with only 1%. This evolution suggests that the transposition of the CBD into national covered bond laws has accelerated the adoption of extendable maturity structures, as more jurisdictions have explicitly permitted such features within their legal frameworks.

As a result, soft bullet covered bonds have become the dominant structure in the market. A notable example is the German Pfandbrief market, which represents nearly 20% of the total index. In 2021, German Pfandbriefe transitioned from hard bullet to soft bullet structures in a single step, significantly contributing to this broader shift.

Overall, the gap between hard and soft bullet structures has widened substantially. While their shares were roughly equal at the end of 2017, the difference had expanded to 73 percentage points by June 2026, underscoring the decisive market shift toward extendable maturity formats.

> 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 2026 index, % share)



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

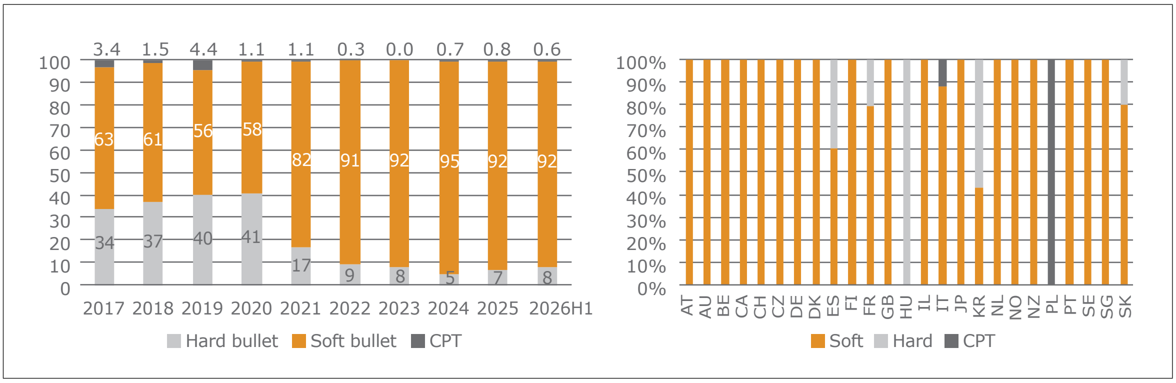
A breakdown of outstanding covered bonds by maturity type and country shows that Luxembourg and Hungary are jurisdictions with only hard bullet covered bonds outstanding (but only a few bonds in total), while in Spain and South Korea around 50% of outstanding covered bonds are still in hard bullet format. Meanwhile, Austria and France are jurisdictions where around one third of outstanding euro benchmark covered bonds are hard bullets. Finally, Denmark, Sweden, Finland and Slovakia also have issuers that issue hard bullet covered bonds, but their share in the total is limited.

However, around half of the jurisdictions that are included in the index have only soft bullet covered bonds outstanding, while some (four in total) have a combination of only soft bullet and CPT covered bonds, although the share of the latter remains limited. Indeed, CPT covered bonds have remained a niche, except for Poland where all covered bonds have CPT structures, as it is a requirement by their covered bond law.

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. Having said that, some issuers continue to prefer to issue hard bullet covered bonds, which implies that this structure will remain having a place in the covered bond market. These trends have also been reflected 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 was 92%, with 7% having a hard bullet structure and 1% a CPT structure. In H1 2026, the share of soft bullets was 91% while that of hard bullet covered bonds rose slightly to 8%. The latter was related to large volumes of supply of a large French hard bullet covered bond issuer and few CEE banks that came to the market with covered bonds in hard bullet format. This confirms that hard bullet covered bonds will continue to play a meaningful role in the covered bond market, although soft bullet covered bonds will remain by far the dominant structure.

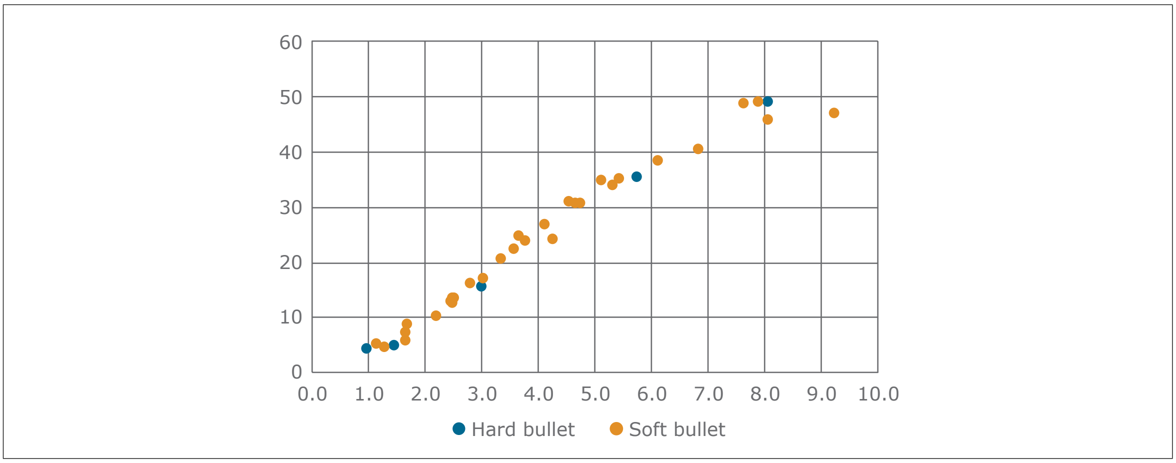
> Figure 2: New issuances of covered bonds in iBoxx euro covered bond index by maturity structure over the years (left, % in total) and by country (in H1 2026, % share)



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. This underlines that covered bonds with extendable maturities have become well established and well accepted.

> 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

CONCLUSION

Twenty-seven member states, each with its own legal tradition and covered bond history – some centuries old, others barely a generation – made harmonisation look like an unlikely ambition at the outset. Full transposition of the Covered Bond Directive has turned that ambition into a real achievement, a reading the EBA now backs directly: its long-awaited advice states plainly that the framework is delivering. Much of this owes to the

CBD's principle-based design and to the European Commission's engagement with industry expertise, such as through the ECBC and its working groups, a combination that has proven both pragmatic and forward-looking.

Under the Directive, a shared understanding of covered bonds has taken hold even as Member States retain real discretion over overcollateralisation, liquidity buffers and maturity extension. The market shows it: soft bullet structures, roughly half the euro benchmark index in 2017, now make up 86% as of June 2026; the "Premium" label has spread widely; and investors have absorbed these changes without pricing any gap between hard and soft bullet issuance. The story isn't finished, though.

With the CfA now answered, the EBA has set the next round of fine-tuning: clearer, objective extension triggers, tighter conditions on liquidity buffer discretion, and stricter rules on collateralization, asset segregation and derivatives. On broader questions, it backs a third-country equivalence regime and reviving the European Secured Note debate, given new relevance by the instrument's first issuance in June 2026. Still missing is the EC's own overdue report, and with it, clarity on any legislative follow-through.

Against ongoing geopolitical flux and the fragmentation the Savings and Investment Union aims to address, the CBD stands as a model of regulatory cooperation. The EBA's framing – calibration, not overhaul – suggests that legacy holds, resting as much on the dialogue it built among regulators, legislators and market participants as on the harmonisation itself.