Call for Advice on EU Covered Bond Framework

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Call for Advice to the European Banking Authority

Performance of the **EU covered bond framework**

Equivalence regime for third-country covered bonds

Risks & benefits from covered bonds with **extendable maturity structures**

Possible introduction **European Secured Notes** as dual recourse instrument

CBD Article 31

Green covered bonds and ESG risks of cover pools and covered bonds

CRR III Recital 55

EBA invited to respond no later than 30 June 2025

EBA Questionnaire

EBA questionnaire to the industry

	Investors	Issuers	Analysts	Rating agencies	Supervisors
A. Market dynamics	8	9	10	7	
B. Cover pool composition	1	5	3	3	
C. Liquidity covered bond market	4	4	4	4	
D. Third country equivalence	3	2	5	4	
E. Extendable maturity	6	4	2	4	?
F. Green covered bonds	4	6	4	2	
G. ESN	2	2	3	3	
H. Transparency	5	2	2	2	
I. Methodology / Data used	-	-	-	3	
Total	33	34	33	32	

A. Market dynamics

Drivers investor **demand / issuance** of covered bonds versus securitisation →

Impact change in **monetary policy** on supply and demand →

Determinants of covered bond **pricing** →

Drivers **cross-border** funding and investments →

(Positive) **impact EU CB framework** on national covered bond markets →

Aspects for **further harmonisation** →

Long-term drivers of EU covered bond **issuance** expansion and **liquidity** →

Most relevant **risks** to the success of the EU covered bond market(s) →

Investor composition for covered bonds of EU issuers →

Assessment of the (recent) **quality** of the **cover pools** →

Financial stability concerns associated with the EU covered bond markets

B. Cover pool composition

Questions to issuers

Issuers

- Determinants composition cover pool
- Cover pool diversified or focus on one asset type
- Derivatives: only micro- or also macro-hedging
- Dominant asset types
- CBD eligible assets that are not used as collateral

Questions to investors, analysts and rating agencies

Investors

- Impact cover pool composition on pricing

Analysts

- Impact cover pool composition on pricing
- Monitoring credit quality of the pool
- Change in composition cover pools

Rating agencies

- Monitoring credit quality of the pool
- Change in composition cover pools
- Requirements derivatives in the cover pool

C. Liquidity covered bond market

Observed improvement/deterioration liquidity conditions since start **monetary tightening**

Observed improvement liquidity & debt EU covered bond markets due to **implementation CBD**

Importance liquidity covered bond market as key determinant for issuers and investors' activity

View on liquidity of covered bond market versus **liquidity** of the **securitisation market**

E. Extendable maturity structures

1. **Pricing** of soft and hard bullet covered bonds	2. **Interest payable** during extension period	3. **Liquidity buffer** vis-à-vis extended maturity date	4. **Information** on maturity extension	Other
Investors – determinants spread between HB & SB	**Investors** – market standard and link with coupon before extension	**Investors** – view on use extended maturity date for 180-day liquidity buffer	**Investors** – information appropriate for risk & benefits assessment	**Investors** – Market risk perception SB, HB & CPT. Differences HB & SB in insolvency/resolution
Issuers – determinants spread between HB & SB	**Issuers** – market standard and link with coupon before extension	**Issuers** – additional liquidity mitigants if extended maturity is reference		**Issuers** – Additional mitigations to limit risk of triggering maturity extension
Analysts – determinants spread between HB & SB			**Analysts** – information appropriate for risk & benefits assessment	
		Rating agencies – requirement additional mitigations to limit liquidity risks	**Rating agencies** – information appropriate for risk & benefits assessment	**Rating agencies** - Impact maturity extension on rating assessment and of actual extension on rating methodology

F. Green covered bonds

Investors

- Cover pool ESG disclosures useful
- ESG parameters used in country
- **Main issues accessing data**
- EU green label for collateral

Issuers

- Benefits/challenges cover pool ESG disclosures
- ESG parameters used in country
- Metrics available in own systems
- Data quality verification process in place for estimated data
- **Main issues collecting data**
- EU green label for collateral

Analysts

- **Benefits/challenges cover pool ESG disclosures**
- ESG parameters used in country
- Climate change considerations part of the analysis
- EU green label for collateral

Rating agencies

- Is ESG data on cover pools collected for rating analysis

G. European Secured Notes

Market developments since EBA 2018 report, justifying a revision in EBA's conclusions

Potential **investor and issuer interest in ESN** and the key drivers for the development of this market

Value in developing ESN to advance the CMU **and challenges** for developing a European product regulation

G. Transparency

Investors (/Analysts/Rating Agencies)

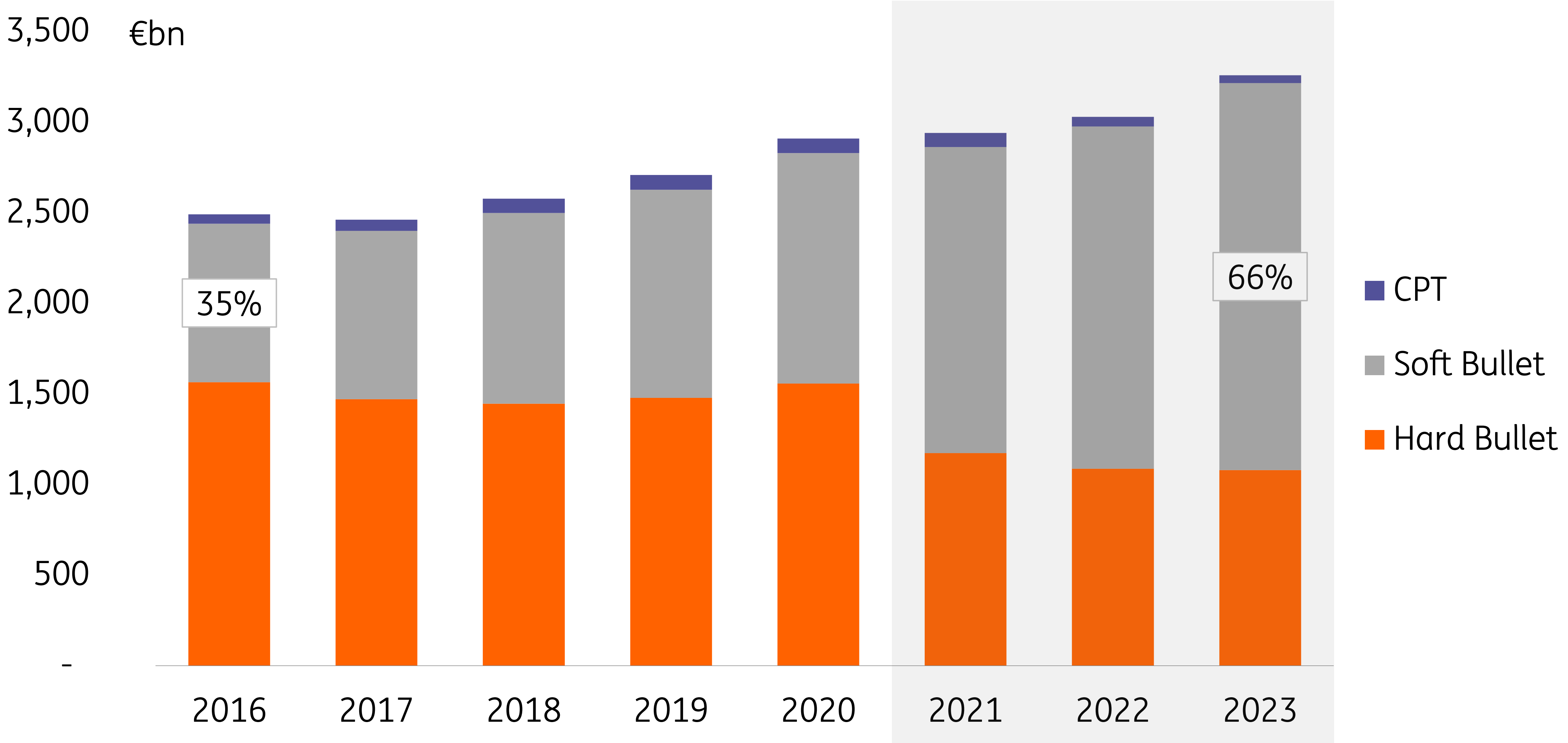
-**Does HTT address relevant risk factors**
-More standardisation required
-Information provided appropriate
-How is due diligence performed
-**Need to enlarge scope of Article 14 CBD**

Issuers

-**Is HTT used to meet transparency requirements**
-How is the CPM provided access to the relevant information to perform its duties (Article 13(2)(e) CBD)

Extendable maturities

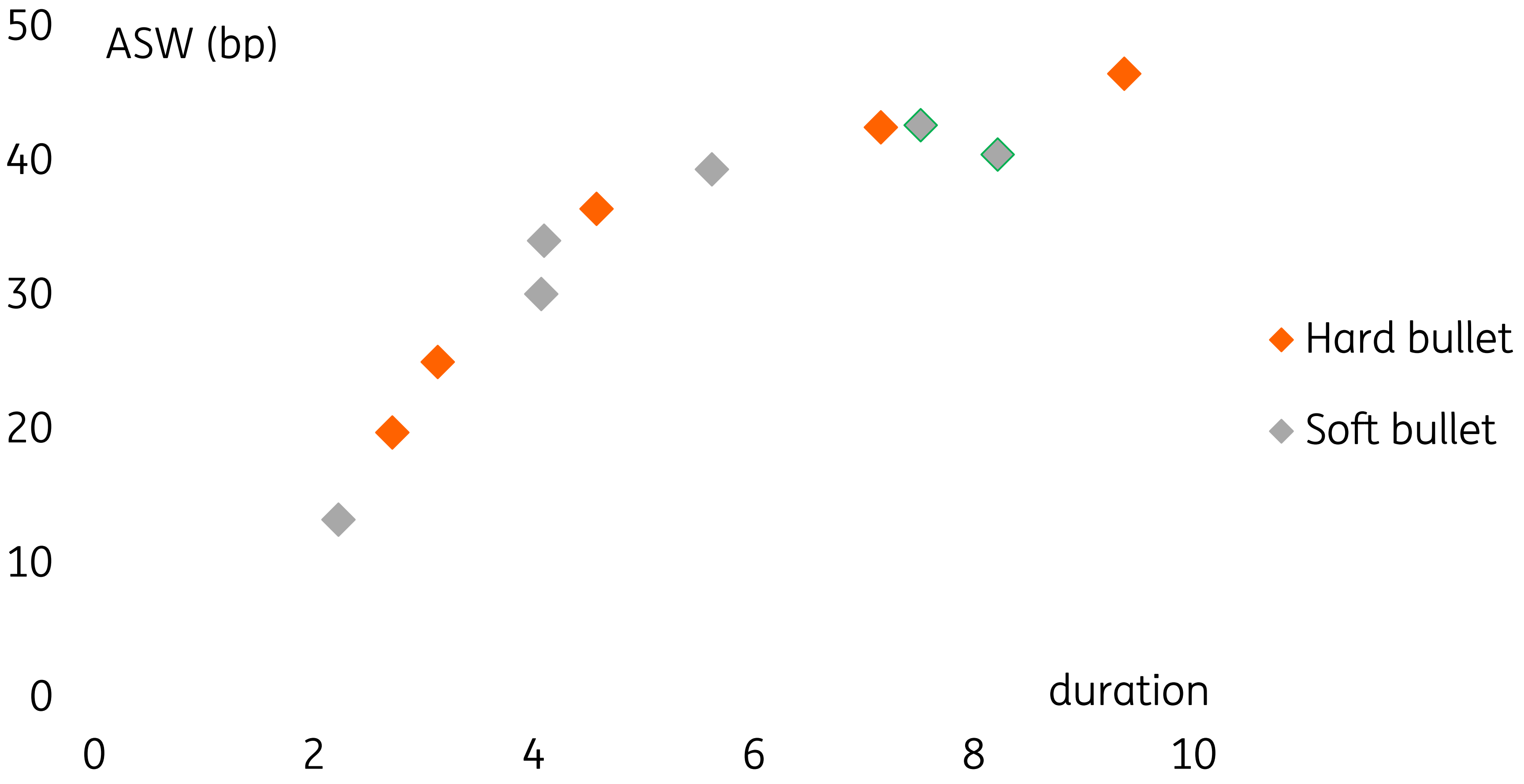
Increase in extendable maturity structures



Source: Statistics ECBC Factbook 2024

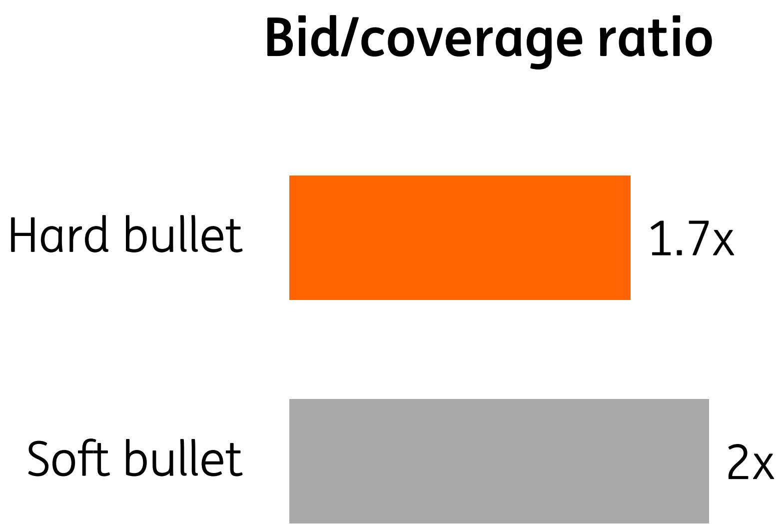
Similar secondary spreads for soft and hard bullet

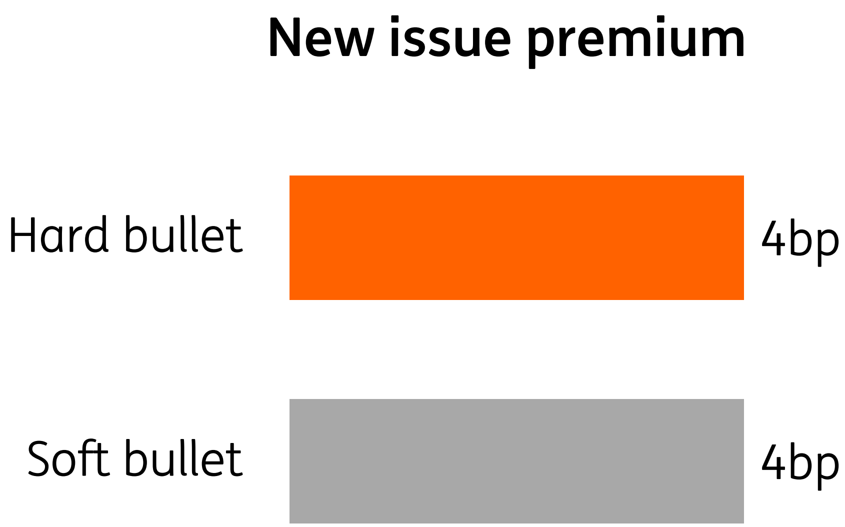
French example



Covered bonds issued since July 2022

Slightly higher primary books for soft bullet

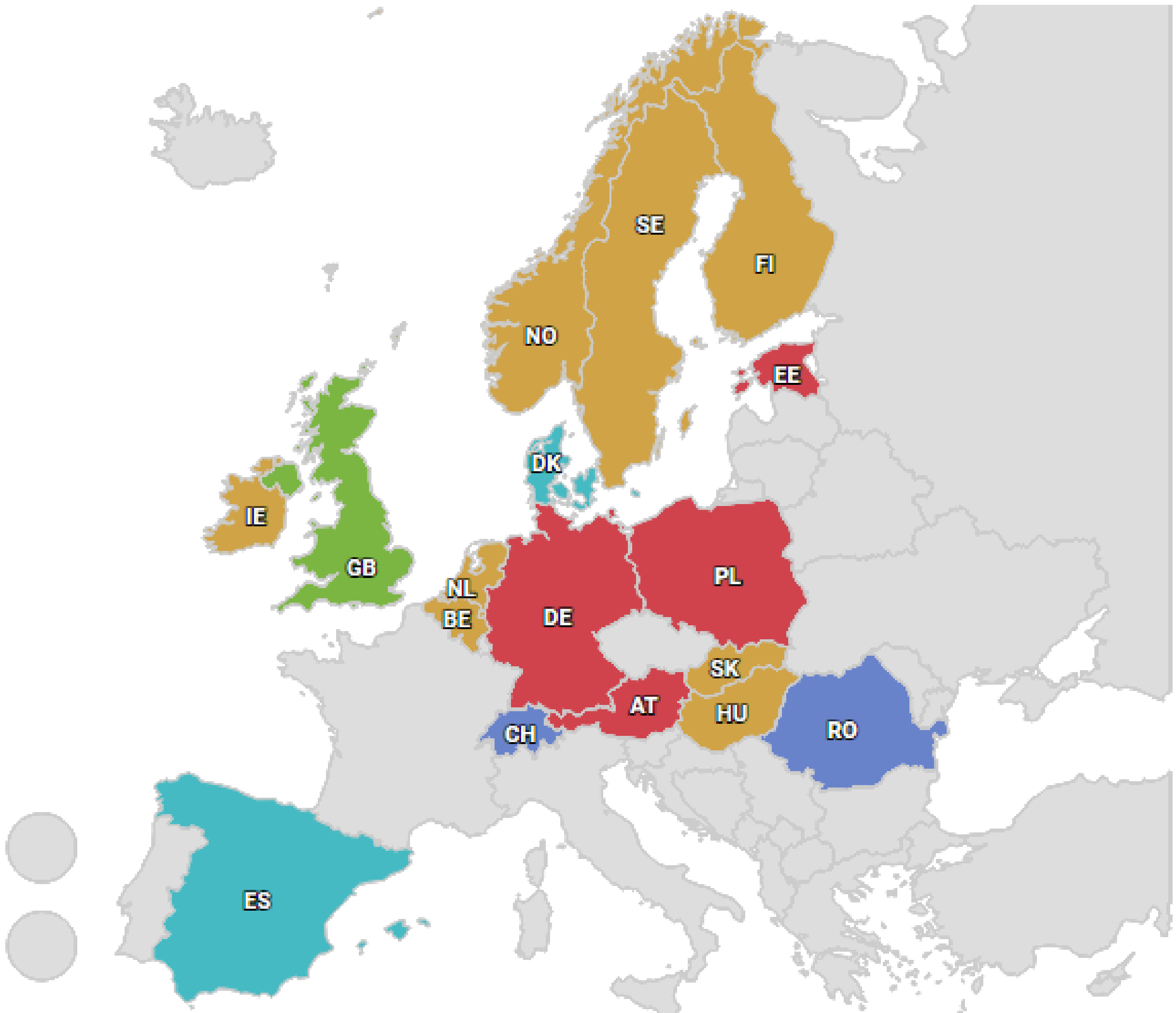




French example – (non-green) covered bonds issued since July 2022

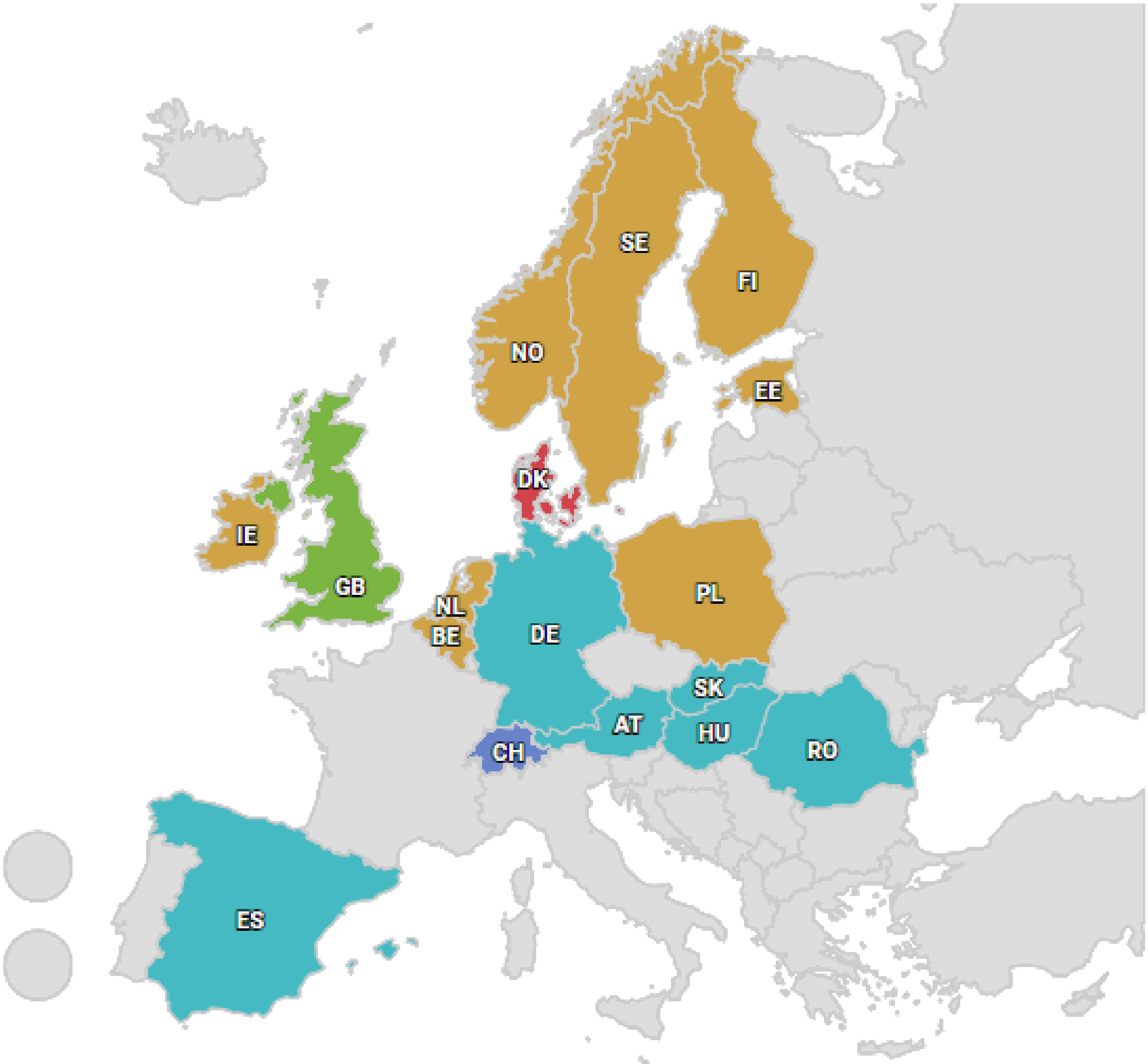
At what earliest stage can maturity extension take place?

- 1 - Maturity extension not regulated by law.
- 2 - Maturity extension not allowed.
- 3 - Only from the opening of insolvency or resolution procedure over the issuer.
- 4 - Before issuer's insolvency or resolution.
- 5 - In case of failed refinancing of CBs.



Do statutory rules require a 180 days liquidity buffer?

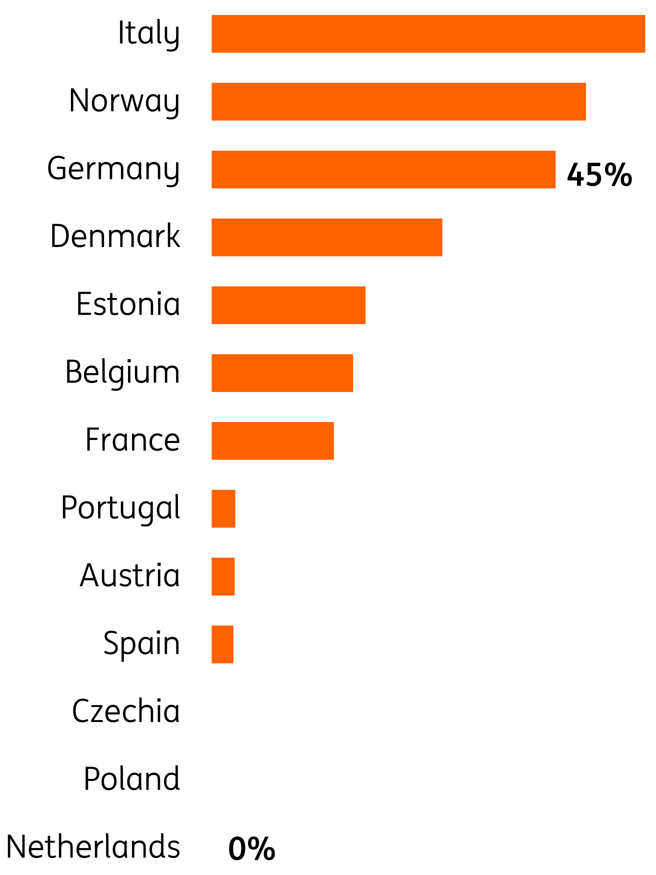
- 1 - No.
- 2 - No, but matched funding principle ensures that there is no liquidity gap (Art. 16 (6) CBD).
- 3 - Yes, but calculation can be based on final legal maturity (Art. 16 (5) CBD) or matched funding principle ensures no liquidity gap (Art. 16(6) CBD).
- 4 - Yes, but calculation can be based on final legal maturity (Art. 16 (5) CBD).
- 5 - Yes.



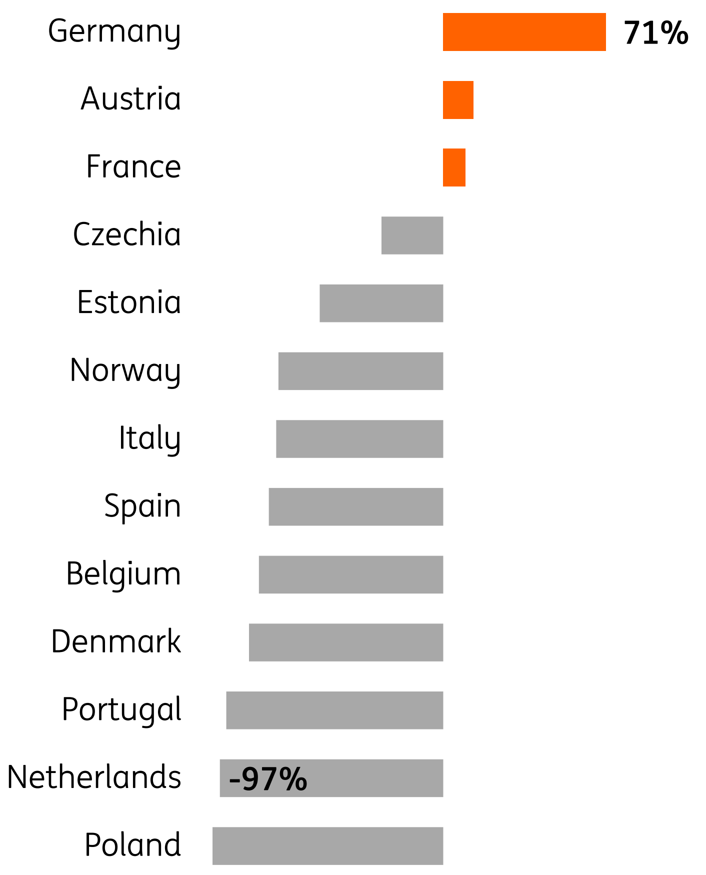
Maturity reference not the only driver of liquid asset balances

Liquid assets
% of total cover pool

Liquid assets
% covered bonds maturing in 1yr

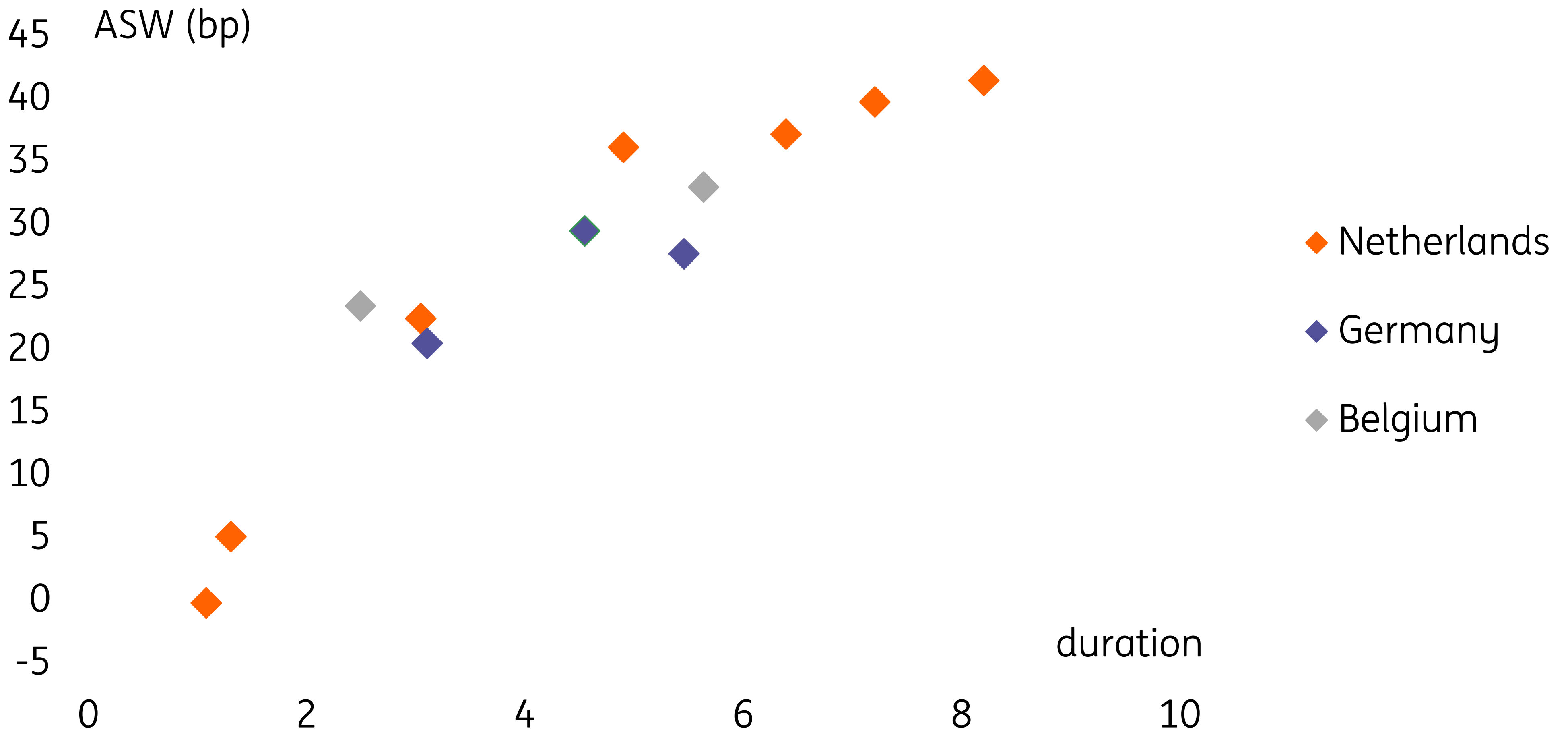


Assets maturing in 1yr
excess coverage of covered bonds maturing



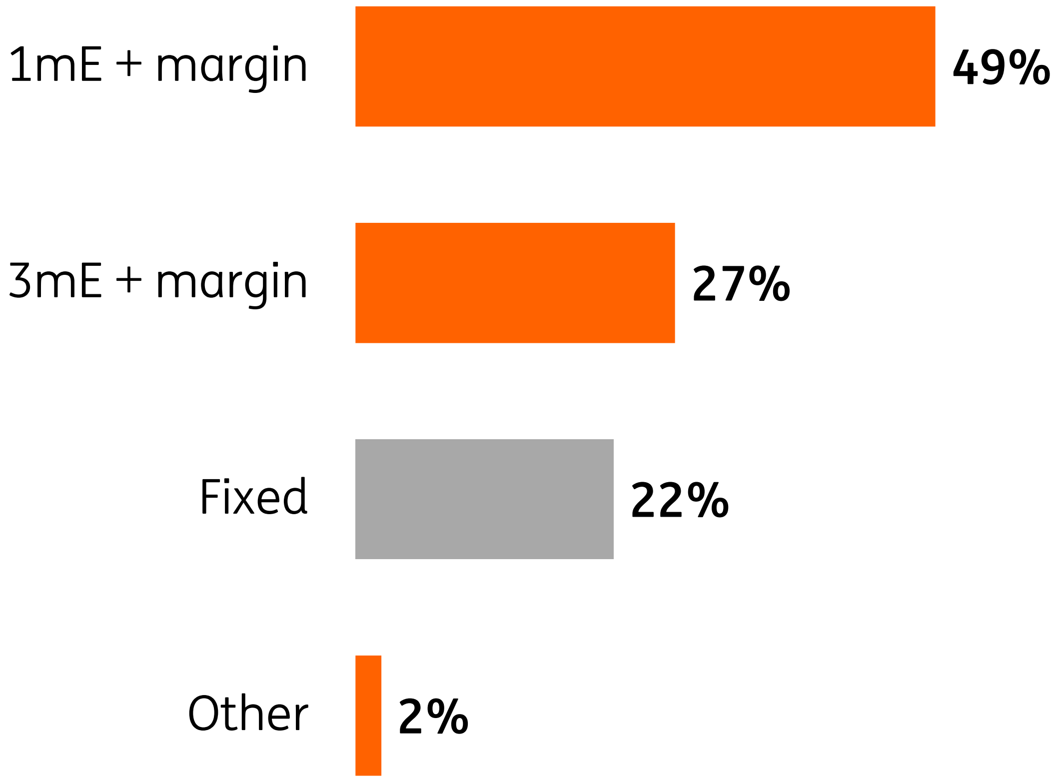
Little spread impact maturity extension & liquidity buffer language

Dutch – German - Belgian example



Covered bonds issued since July 2022

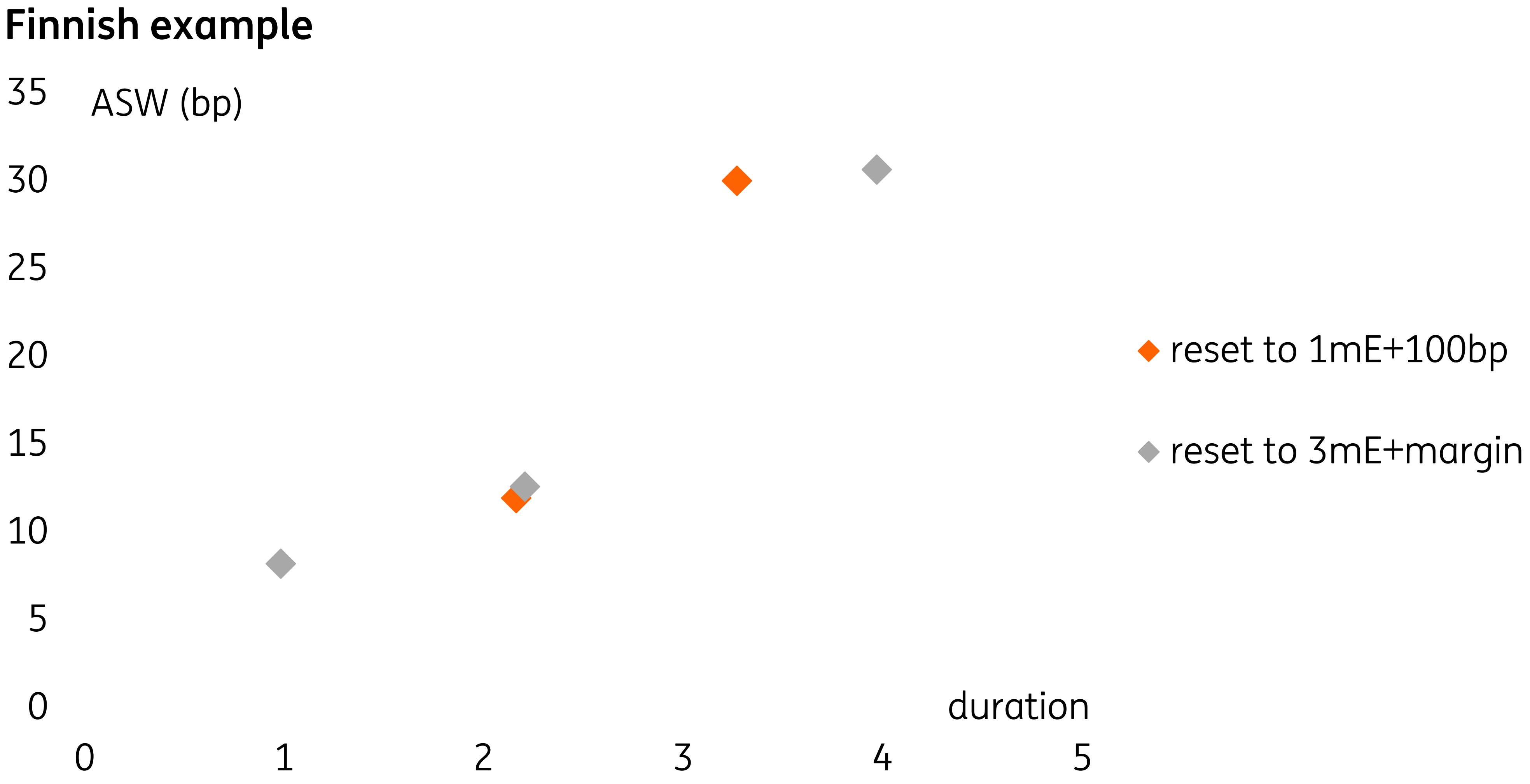
Coupons will reset mostly to floating post extension



Margin = new issue spread at launch

Only IHS Markit EUR Covered constituents

Coupon reset language no impact on spreads



do your thing

Appendix

More on the call for Advice

A. Assessment performance covered bond framework

Investor protection and covered bond market developments

- **Performance and functioning** of the EU covered bond markets
  - (i) Issuance volumes (incl. CRR Article 129(1) eligible covered bonds)
  - (ii) Developments cover assets and overcollateralization levels
  - (iii) Issuance volumes comparable instruments, ie securitisations
  - (iv) Credit performance of cover pools and realised yields covered bondholders
  - (v) Liquidity of covered bonds
  - (vi) Investor base of EU covered bonds
  - (vii) Developments number of permissions to issue covered bonds
  - (viii) Use of "European covered bond" label
- **Mitigation liquidity risks** due to collateralization & liquidity requirements
- Risk/benefits use CRR Article 129(1) exposures vs their **prudential treatment**
- Contribution covered bonds to **asset encumbrance** levels
- Implementation of the CBD and use of **national discretions**
- **Other matters** deemed appropriate

B. Assessment additional items in CBD Article 31

1. Third country equivalence regime

- **Whether and how** should an equivalence regime be introduced
- Appropriate **criteria and principles** to determine equivalence
- **Impact** of such a regime on EU markets
- Cross covered bond holdings of EU and third country credit institutions
- Performance of covered bond markets in significant third country markets

2. European Secured Notes

- Are the EBAs **conclusions** on ESNs as **new dual recourse instrument** still the **same** as in the 8 July 2018 report?

3. Covered bonds with extendable maturities

- **Market trends** in use of covered bonds with extendable maturity structures
- **Risk and benefits** arising from covered bonds with extendable maturities

C. Green covered bonds

ESG disclosure requirements for covered bonds

- Current and future **developments** green covered bond market
- **Relevance** of introducing **disclosure requirements** of cover pool ESG risks
- **Interlinkage** with **Pillar 3** ESG disclosures & March ‘23 ESA/ECB joint statement