

Focus on: Covered Bonds

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European covered bonds: central website provides clarity



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New label: What requirements need to be met?

Uniform minimum standards have applied to covered bonds in the EU since 8 July 2022 pursuant to the Covered Bond Directive (2019/2162). To be designated as European Covered Bonds, issues must meet these requirements. Furthermore, to be eligible for lower risk weightings in the capital adequacy requirements for banks or to use the label of "**European Covered Bond Premium**", they must adhere to additional requirements pursuant to Article 129 CRR.

What are the implications of amendments to Article 129 CRR?

In the scope of harmonising the EU Covered Bond Directive, amendments were made to Article 129 CRR that introduced a number of new provisions.

In addition to traditional cover assets, it will still permit exposure to credit institutions as long as the total exposure does not exceed certain proportions of the nominal amounts of the issuing institution's outstanding covered bonds. However, new limits have been applied that are based on credit quality steps. Ratings up to AA- are assigned to credit quality step 1, which provides for a maximum weighting of 15 %. However, exposures to institutions in the Union are not subject to the requirements of credit quality step 1; instead, they are assigned to credit quality step 2. This credit quality step requires a rating of up to A- and permits senior securitised units to be used as collateral up to a maximum of 10 % of the nominal amount of the covered bonds. For credit quality step 3 (up to BBB-), the maximum amount is 8 %, for short-term deposits with an original maturity of 100 days or less, provided that these deposits are used to meet the requirements of a liquidity buffer for the cover pool pursuant to Article 16 of Directive (EU) 2019/2162, or derivative contracts that meet the requirements of Article 11(1) of that Directive, provided that they are approved by the competent authority.

Overview of eligible weightings:

Credit quality step I	(up to AA-)	= 15 % of nominal amount of outstanding covered bonds
Credit quality step II	(up to A-)	= 10 %,
Credit quality step III	(up to BBB-)	= 8 %.

Additionally, there is a nominal overcollateralisation requirement of 5 %. However, it is still possible to have a lower overcollateralisation ratio if, for example, the LTV is used in the valuation of mortgage loans and the overcollateralisation ratio does not fall below a minimum of 2 %.

The **transparency requirements** that were previously applicable in **Capital Requirements Regulation (CRR)** have been part of the minimum standards for all covered bonds since 8 July 2022 and have been expanded in the Covered Bond Directive (Article 14) to include some information for investors. This includes, among other things, a list of the International Securities Identification Numbers (ISINs) for all covered bond issues, information on the valuation method of the loans, on credit and liquidity risks and on the amount of statutory, contractual and voluntary overcollateralisation.

How can investors find out whether a particular security meets the new requirements of a European Covered Bond?

Pursuant to Article 26 of the EU Covered Bond Directive, the national supervisory authorities are obliged to publish lists on their websites showing which covered bonds meet the eligibility requirements to be labelled as "**European Covered Bond Premium**". At the same time, they must also make the respective national legal frameworks for covered bonds publicly available. These lists have already been published by the [German](#) and [Spanish](#) supervisory authorities.

The **ECBC** is currently working with its network of national legal experts on providing a complete overview of the national legal frameworks on its website: <https://www.coveredbondlabel.com>. This information will be made freely available to everyone under the section "[Comparative Database](#)" as soon as the ECBC's national experts have collated and validated the principal legal aspects for their respective countries.

This overview will contain the following information:

- A link to the respective national supervisory authority and the corresponding covered bond list
- A link to the respective national supervisory authority and the corresponding legal framework for covered bonds

When this information is live, it will be possible to see whether a covered bond programme or ISIN meets the requirements of Article 129 CRR, the EU Directive and LCR on the above-mentioned Covered Bond Label website.

Notably, two additional sections with links to primary and secondary legislation as well as lists of premiums and supplementary information on individual countries and the mortgage market landscape - in the "Fact Book Country Chapter" and the "Hypostat Country Chapter", respectively - will be made available in the near future.



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