Helaba

Focus on: Covered Bonds
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Better risk weight off the table for the time being



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In a press release, the EU Commission informed about the proposal and the outcome of the corresponding vote on amendments to the CRR (EU 575/2013) with regard to risk weights of securitisation transactions and, implicitly, also of covered bonds. The short story: certain securitisation transactions enjoy a 5 % risk weight – the omission of covered bonds is tantamount to maintaining the 10 % risk weight in the standard approach. What initially sounds like the end of the covered bond's triumphal march through regulation, however, is not quite as dramatic as the first glance suggests – which is why it is worth taking a more detailed look at the facts.

What regulatory capital must accomplish and how risk weights should be determined

According to the Basel Committee – the intellectual basis of the CRR – expected losses from an asset position should be covered by current income, margins or loan loss provisions; unexpected losses, on the other hand, by regulatory capital.

These requirements are translated into risk weights in the CRR, which in turn represent the lever for regulatory capital. In the context of covered bonds vs. securitisations, quite different approaches are chosen:

- In the low-complexity procedural area, the standard approach can be chosen for normal bonds. In the case of securitisation transactions, in addition to the SEC-SA (standard approach), there is also the SEC-ERBA (External Ratings-Based Approach). The latter is probably the most frequently chosen approach.
- On the one hand, external rating levels for securitisations and non-securitisations are mapped differently to Credit Quality Steps (CQS) – see Table 1.
- On the other hand, the translation of CQS into risk weights for covered bonds is a one-dimensional process, while in the case of securitisations, differences are made based on the duration of the tranches – Table 2. The maturity points of one and five years are understood as minimum or maximum values within which linear interpolation is applied.

Table 1: Mapping of CQS vs. ECAI Ratings differ substantially

ECAI Rating	CQS Bonds	CQS Securitisations
AAA	1	1
AA+ - AA-	1	2
A+	2	3
A	2	4
A-	2	5
BBB+	3	6
BBB	3	7
BBB-	3	8

Sources: EU Commission, EBA, Helaba Research

Table 2: Covered Bond Risk Weights vs. STS Securitisation SEC-ERBA Approach

	RW Covered Bonds	RW STS-Securitisations	
CQS		1 Year	5 Years
1	10%	7%*	7%*
2	20%	7%*	10%
3	20%	10%	12%
4		10%	16%
5		12%	20%

Sources: EU Commission, EBA, Helaba Research

The upcoming change in risk weight (we are concentrating on STS securitisations) concerns, in particular, the classifications marked with * in Table 2. The risk weight has generally been reduced from 10 % to 7 %. In the SEC-SA approach, the changes materialize in a blanket reduction of the minimum risk weight from 10 % to 7 %. In both approaches, a risk weight of 5 % is to be applied in the case of auto or equipment securitisations and in the case of commercial paper securitisations of trade receivables.

Our Views

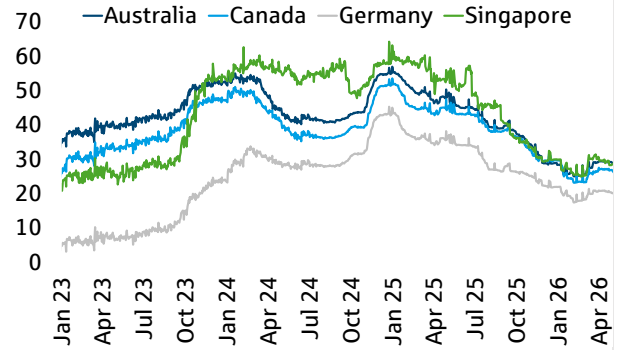
In principle, we consider the existence of two different CQS mapping tables for securitisations and non-securitisations to be suboptimal. In the sense of administrative simplification, this would probably have been an aspect that should have primarily required reform.

The covered bond market is mainly in the CQS 1 segment. Senior securitisation tranches are usually located in the CQS 1 and 2 range, but the single-A area (CQS 3-5) is also frequented (e.g. EDGEU 2026-1X). **The assessment or quantification of why exactly an AAA-rated STS securitisation tranche should have a lower unexpected loss than a highly-rated EU covered bond was not communicated in the decision.** The aim was merely to promote the European securitisation market in a targeted manner and at the same time to ensure the financial stability of the markets.

The question of the correct level of the risk weights is likely to be an excellent topic of discussion across all asset classes. We are therefore aware that despite all the fundamental discussion about expected and unexpected losses, the definition of the risk weight is a political one. Heretically, one may raise the question of how many Auto-ABS tranches have defaulted since 1990 and what the situation is for EU government bonds.

Is the value of regulatory advantages dwindling?

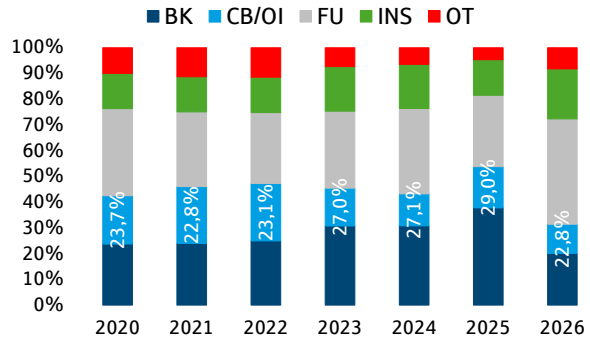
5Y Constant Duration Spread Indizes



Sources: Bloomberg, Helaba Research

Bank investors are important – but not the largest class of investors

Average placement of covered bonds per investor class



Sources: Issuer information, Helaba Research

Will the EU's decision affect relative value valuations? In fact, we don't think so: the reason is that, despite all the bold discussion, risk weighting is only an issue for intra-European bank investors – even central banks are not affected by it. So far in 2026, however, on average, only just under 23 % of the total volume of covered bonds has been allocated to bank investors. A look at the convergent spread development of covered bonds from inside and outside the EU may also be interpreted as a reflection of the dwindling significance of regulatory differences. In addition, even within the regulatory universe for bank investors, the risk weight is only one of several aspects – the classification regarding HQLA, including a Level 2B cap at 15 % of the HQLA portfolio and the haircut of 25 %, are not part of the current amendment. In these contexts, at least for the moment, the clear advantages for covered bonds remain.

In anticipation of a possible better risk weight for covered bonds, which has now not materialised, the effects on the relative valuation vis-à-vis the SSA market have also been discussed in recent weeks and months. Again, we maintain the view that regulatory differences in general and risk weight in particular are fundamentally relevant, but not the decisive factor. Short- to medium-term supply/demand situations Have higher significance.

Viewed in isolation, we welcome the decision to use lower risk weights for securitisations. In particular, we consider Auto-ABS transactions to be of outstanding quality due to the clarity of the structures, the homogeneity of the standards that have now been established and the granularity of the cover assets. This applies in particular to German car securitisations based on the high intrinsic value of the cover assets (transfer of title by way of security assignment – Sicherungsübereignung). Consequently, the question arises as to a justification for less favourable treatment compared to government bonds. We also understand the operational approach of limiting the CRR-changes to the securitisation market sub-spectrum, especially since other regulatory aspects of securitisations have been reformed in addition to just the capital requirements.

However, when it comes to the changes in the ranking of risk weights, our understanding fundamentally reaches its limits. The global triumph of the idea of covered bank bonds from a few national markets 30 years ago to a global market of EUR 3,300 bn is not based on a capital market mood. Rather, it is the result of a fundamentally good idea that has proven its outstanding efficiency on the funding as well as on the investment side over decades and market phases under constant further development. The decision in favour of securitisation relegates covered bonds – so far, the private bond market with the strongest regulatory support – to the second tier in at least one aspect. Instead, the decision favours a fundamentally outstanding market, which, however, has yet to prove its role as a savior of European capital market funding.



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