# Issue of covered bonds and covered bond public supervision

2018/0043(COD) - 18/04/2019 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 425 votes to 109, with 39 abstentions, a legislative resolution on the proposal for a directive of the European Parliament and of the Council on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU.

The position of the European Parliament adopted at first reading under the ordinary legislative procedure has amended the Commission proposal as follows:

# An EU framework for covered bonds

The proposed Directive responds to the need to further develop covered bond markets throughout the Union and to support cross-border investment. It shall set minimum harmonisation requirements that all cover bonds marketed in the EU would have to comply with. Such principles-based harmonisation shall ensure the harmonious and continuous development of well-functioning covered bond markets in the Union and limit potential risks and vulnerabilities to financial stability.

The proposed Directive establishes investor protection rules concerning:

- requirements for issuing covered bonds;
- the structural features of covered bonds;
- covered bond public supervision;
- publication requirements in relation to covered bonds.

'Covered bond' means a debt obligation issued by a credit institution in accordance with the provisions of national law transposing the mandatory requirements of this Directive and secured by cover assets to which covered bond investors have direct recourse as preferred creditors.

## European covered bond label

Covered bonds are currently marketed in the Union under national denominations and labels, some of which are well-established while others are not. It seems therefore sensible to allow credit institutions which issue covered bonds in the Union to use a specific 'European Covered Bonds' label when selling covered bonds to both Union and third countries' investors under the condition that those covered bonds comply with the requirements set out in this Directive. If covered bonds also comply with the requirements set out in Article 129 of Regulation (EU) No 575/2013, credit institutions should be allowed to use the label 'European Covered Bonds (Premium)'. That label, indicating that specific additional requirements have been met resulting in a strengthened and well-understood quality, might be attractive even in Member States with well-established national labels.

The aim of the two labels 'European Covered Bond' and 'European Covered Bond (Premium)' is to make it easier for investors to assess the quality of the covered bonds and hence make them more attractive as an investment vehicle both inside and outside the Union.

The use of those labels should however be facultative and Member States should be able to maintain their own national denominations and labelling framework in parallel to the 'European Covered Bonds' labels.

## Eligible cover assets

Under the amended text, Member States shall require that the secured obligations be guaranteed at all times by:

- assets referred to as eligible under Article 129(1) of Regulation (EU) No 575/2013, provided that the credit institution issuing the covered bonds complies with the requirements set out in the Regulation;
- high quality cover assets that ensure that the credit institution issuing covered bonds has a claim for payment and secured by collateral assets;
- assets in the form of loans to or guaranteed by public undertakings as defined in Commission Directive 2006/111/EC.

The requirements to be met by the assets used as collateral are specified.

### Member States shall:

- establish rules concerning the methods and process for the valuation of physical assets used as collateral assets;
- require credit institutions issuing covered bonds to put in place procedures to verify that the physical assets used as collateral are sufficiently insured against the risk of damage;
- establish rules on risk diversification in the cover pool in relation to granularity and material concentration for assets not referred to as eligible.

In addition, Member States shall:

- ensure investor protection by laying down rules on the composition of cover pools;
- ensure investor protection by allowing derivatives contracts to be included in the cover pool only where at least the following requirements are met;
- establish rules on the segregation of cover assets;
- ensure that credit institutions issuing covered bonds provides information on covered bond programmes that is sufficiently detailed to allow investors to assess the profile and risks of that programme and to carry out their due diligence;
- ensure investor protection by requiring covered bond programmes to comply at all times with at least the coverage requirements;
- require that the cover pool includes at all times a liquidity buffer composed of liquid assets available to cover the net liquidity outflow of the covered bond programme;
- ensure that the issue of covered bonds is subject to a covered bond public supervision;

- lay down, without prejudice to the right of Member States to provide for the system of criminal sanctions, rules laying down administrative sanctions and other appropriate administrative measures applicable in certain situations.	