

Issue of covered bonds and covered bond public supervision

2018/0043(COD) - 18/12/2019 - Final act

PURPOSE: to adopt new rules on harmonised product requirements and the supervision of covered bonds in order to ensure a high level of investor protection.

LEGISLATIVE ACT: Directive (EU) 2019/2162 of the European Parliament and of the Council on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

CONTENT: the newly adopted legal framework (consisting of a Directive and a [Regulation](#)) sets minimum harmonisation requirements that all covered bonds marketed in the EU shall comply with.

Covered bonds are financial instruments issued by a credit institution and backed by a separate pool of assets - typically mortgages or government debt securities - over which investors have a preferential right in the event of the issuer's default. Covered bonds are an efficient source of financing for the economy and provide a high level of security for investors.

Harmonisation requires all Member States to establish frameworks for covered bonds, which should facilitate the development of covered bond markets in Member States where none exist. Such a market shall provide a stable source of funding for credit institutions, which shall be better placed to offer affordable mortgages to consumers and businesses and safe alternative investments to investors.

Objective and scope

The Directive provides a common definition of covered bonds and lays down investor protection rules concerning:

- requirements for the issuance of covered bonds;
- structural features of covered bonds;
- public supervision of covered bonds;
- publication requirements for covered bonds.

European covered bond label

Credit institutions issuing covered bonds in the Union shall use a special label "European covered bond" when selling covered bonds to investors in the Union or in third countries, provided that the covered bonds comply with the requirements set out in this Directive.

Where covered bonds also meet the requirements set out in the Capital Requirements Regulation (CRR), credit institutions shall use the label 'European Covered Bond (Premium)'. This label, which indicates a particularly high and widely recognised quality, may prove attractive even in Member States with well-established national labels.

The aim of the 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 to make them more attractive as an investment vehicle both inside and outside the Union. The use of those two labels shall, however, be voluntary, and Member States shall be able to maintain their own national denominations and labelling frameworks in parallel to those two labels

Cover assets

Another core feature of existing national covered bond frameworks is the requirement that cover assets are of very high quality in order to ensure the robustness of the cover pool. Cover assets are characterised by specific features relating to claims for payment and the collateral assets securing such cover assets. Accordingly, the Directive defines general quality criteria for eligible cover assets.

Bankruptcy remoteness shall also be an essential feature of covered bonds to ensure that covered bond investors are repaid on the maturity of the bond.

ENTRY INTO FORCE: 7.1.2020.

TRANSPOSITION: no later than 8.1.2021.

APPLICATION: from 8.7.2022.