Basic information

2018/0042(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	Procedure completed
Exposures in the form of covered bonds Amending Regulation (EU) No 575/2013 2011/0202(COD) **Subject** 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 3.45.01 Company law	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	LUCKE Bernd (ECR)	31/05/2018
	Shadow rapporteur ROSATI Dariusz (PPE) SANT Alfred (S&D) NAGTEGAAL Caroline (ALDE) MATIAS Marisa (GUE/NGL) LAMBERTS Philippe (Verts/ALE) KAPPEL Barbara (ENF)	

Committee for opinion	Rapporteur for opinion	Appointed
JURI Legal Affairs	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	3725	2019-11-08

European Commission

Commission DG	Commissioner
Financial Stability, Financial Services and Capital Markets Union	DOMBROVSKIS Valdis

European Economic and Social Committee

European Committee of the Regions

Key events

Date	Event	Reference	Summary
12/03/2018	Legislative proposal published	COM(2018)0093	Summary
16/04/2018	Committee referral announced in Parliament, 1st reading		
20/11/2018	Vote in committee, 1st reading		
20/11/2018	Committee decision to open interinstitutional negotiations with report adopted in committee		
26/11/2018	Committee report tabled for plenary, 1st reading	A8-0384/2018	Summary
28/11/2018	Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 72)		
10/12/2018	Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 72)		
01/04/2019	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE637.305 GEDA/A/(2019)002708	
17/04/2019	Debate in Parliament		
18/04/2019	Decision by Parliament, 1st reading	T8-0431/2019	Summary
18/04/2019	Results of vote in Parliament		
08/11/2019	Act adopted by Council after Parliament's 1st reading		
25/11/2019	End of procedure in Parliament		
27/11/2019	Final act signed		
18/12/2019	Final act published in Official Journal		

Technical information

Procedure reference	2018/0042(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation (EU) No 575/2013 2011/0202(COD)
Legal basis	Treaty on the Functioning of the European Union TFEU 114
Other legal basis	Rules of Procedure EP 165
Mandatory consultation of other institutions	European Economic and Social Committee European Committee of the Regions
Stage reached in procedure	Procedure completed
Committee dossier	ECON/8/12504

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE626.775	21/08/2018	
Amendments tabled in committee		PE627.924	26/09/2018	
Committee report tabled for plenary, 1st reading/single reading		A8-0384/2018	26/11/2018	Summary
Text agreed during interinstitutional negotiations		PE637.305	20/03/2019	
Text adopted by Parliament, 1st reading/single reading		T8-0431/2019	18/04/2019	Summary

Council of the EU

Document type	Reference	Date	Summary
Coreper letter confirming interinstitutional agreement	GEDA/A/(2019)002708	20/03/2019	
Draft final act	00085/2019/LEX	27/11/2019	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2018)0093	12/03/2018	Summary
Document attached to the procedure	SWD(2018)0050	12/03/2018	
Document attached to the procedure	SWD(2018)0051	12/03/2018	
Commission response to text adopted in plenary	SP(2019)440	08/08/2019	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	ES_CONGRESS	COM(2018)0093	14/05/2018	
Contribution	PT_PARLIAMENT	COM(2018)0093	17/05/2018	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2018/0037 OJ C 382 23.10.2018, p. 0002	22/08/2018	Summary

Additional information

Source	Document	Date

European Parliament	Briefing	
European Commission	EUR-Lex	

Final act	
Regulation 2019/2160 OJ L 328 18.12.2019, p. 0001	Summary

Exposures in the form of covered bonds

2018/0042(COD) - 26/11/2018 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Bernd LUCKE (ECR, DE) on the proposal for a regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds.

The proposed Regulation aims to amend Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) by providing for **additional requirements for covered bonds**, which will enhance the quality of covered bonds eligible for preferential capital treatment as defined in Article 129 of the Regulation.

The amendments build on the current prudential treatment but add **requirements on minimum overcollateralisation and substitution assets**. They would strengthen the requirements for granting preferential prudential treatment to guaranteed bonds. The amended text specifies that Member States can decide to apply a higher minimum level of overcollateralisation to covered bonds issued by credit institutions located in their territory, without preventing other covered bonds with a lower minimum level of overcollateralisation that comply with this Regulation from benefitting from its provisions

Such a requirement serves the purpose of **mitigating the most relevant risks** arising in case of the issuer's insolvency or resolution.

The European Parliament, in its resolution of 4 July 2017 entitled 'Towards a pan-European covered bonds framework', supported the creation of a European framework for principles-based covered bonds.

Exposures in the form of covered bonds

2018/0042(COD) - 12/03/2018 - Legislative proposal

PURPOSE: to amend the requirements for the prudential treatment of covered bonds in order to promote the development of covered bond markets.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: this proposal for a Regulation amending Regulation (EU) No 575/2013 (Captial Requirements Regulation – CRR) is part of a package of measures to deepen the Capital Markets Union (CMU), together with the Communication "Completing Capital Markets Union by 2019 – time to accelerate delivery".

Covered bonds are financial instruments that are generally issued by banks to fund the economy. They facilitate the financing of mortgage and public sector loans, thereby supporting lending more broadly. Covered bonds fared well during the financial crisis and proved to be a **reliable and stable funding** source at a time as other funding channels dried up.

However, **diverse rules** across Member States affect the credit strength of those instruments. In addition, covered bonds markets are unevenly developed across the Single Market. While they are very important in some Member States, they are less developed in others.

While they benefit from preferential prudential and regulatory treatment in various respects in the light of the lower risks (e.g. banks investing in them do not have to set aside as much regulatory capital as when they invest in other assets), Union law does not comprehensively address what actually constitutes a covered bond.

The Commission considers that a **Union legislative framework** on covered bonds should:

- expand the capacity of credit institutions to provide financing to the real economy and contribute to the development of covered bonds across the Union, particularly in Member States where no market for them currently exists;
- increase cross-border flows of capital and investment which would provide investors with a wider and safer range of investment opportunities, contribute to financial stability and help finance the real economy.

The framework consists of a Directive on definitions and standards for covered bonds and a Regulation amending the Capital Requirements Regulation (CRR) – the two instruments should be seen as a single package.

IMPACT ASSESSMENT: of the four options considered, the option chosen is that of **minimum harmonisation based on national regimes**. It is based on the recommendations made in the 2016 European Banking Authority (EBA) report, with the exception of a few deviations.

It is likely to be the most effective in achieving the objectives, while at the same time being efficient and minimising disruption and transition costs. It is also one of the more ambitious options in regulatory terms, while enjoying the most support from stakeholders.

CONTENT: this proposed Regulation will mainly amend Article 129 of Regulation (EU) No 575/2013 (Capital Requirements Regulation (CRR)) with the aim of strengthening the conditions for granting preferential capital treatment by **adding further requirements**.

The amendments build on the current prudential treatment but **add requirements on minimum overcollateralisation and substitution assets**.

Article 129 of Regulation (EU) No 575/2013 allows covered bonds to be collateralised by senior units issued by French *Fonds Communs de Titrisation* or equivalent entities governed by the laws of a Member State that securitise residential or commercial property exposures under certain conditions, including the provision that such units do not exceed 10 % of the nominal amount of the outstanding issue. **This possibility is repealed**, as only a few national covered bond frameworks allow the inclusion of residential or commercial mortgage-backed securities.

The proposed amendments introduce a **new requirement on a minimum level of overcollateralisation** (a level of collateral exceeding the coverage requirements). This level is set at 2 and 5%, depending on the assets in the cover pool, based on a nominal calculation method.

Exposures in the form of covered bonds

2018/0042(COD) - 22/08/2018

OPINION of the European Central Bank on a 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; and on a proposal for a regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds.

The ECB welcomes the objectives of the proposed directive and regulation of promoting further integration of Union financial markets and deepening the Capital Markets Union (CMU). It is in favour of a developed, harmonised, high-quality and transparent covered bond market in the Union.

Specific observations on the proposed regulation

The ECB welcomes a harmonised approach towards minimum overcollateralisation. A uniform calculation method without exceptions is favoured.

The ECB therefore has reservations about the proposal to apply different requirements in certain situations.

The ECB also welcomes the fact that the proposed regulation clarifies that the loan-to-value (LTV) limits should be applied as soft coverage limits. This LTV limit should be applied not only upon inclusion of such loan but throughout the entire maturity of the loan.

For the purpose of the LTV limits, it would be prudent for the property value to be monitored and updated at least on a yearly basis by using an indexation method, in addition to the other requirements for immovable property collateral that are set out in Article 208 of Regulation (EU) No 575 /2013.

The ECB recommends, furthermore:

- that the assets that may contribute to mandatory overcollateralisation should be eligible assets as listed in the proposed regulation, and be subject to the same limits on exposure size as set out in the proposed regulation

- setting out qualitative requirements for substitution assets for covered bonds, applying the same requirements as for eligible assets in accordance with the proposed regulation;

- including in the proposed regulation a requirement that substitution assets must not exceed 20 % of the total nominal amount of all outstanding covered bonds of the issuer.

Exposures in the form of covered bonds

2018/0042(COD) - 18/12/2019 - Final act

PURPOSE: to strengthen the conditions for granting preferential prudential treatment to covered bonds.

LEGISLATIVE ACT: Regulation (EU) 2019/2160 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds.

CONTENT: the Regulation amends Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) by providing for additional requirements for covered bonds, which shall enhance the quality of covered bonds eligible for the favourable supervisory treatment set out in Article 129 of that Regulation.

The Regulation is part of the adopted new legal framework (also consisting of a Directive) setting minimum harmonisation requirements that all covered bonds marketed in the EU shall have to comply with. The harmonised regulatory framework shall provide a stable source of funding for credit institutions, which shall be better able to provide mortgage credit at a price affordable to consumers and businesses and will make other, safer investments available to investors.

In its opinion of 1 July 2014, the European Banking Authority (EBA) considered that the preferential treatment in the risk weighting provided for in the CRR Regulation was, in principle, an appropriate supervisory treatment. However, the EBA recommended that further consideration should be given to the possibility of complementing the eligibility conditions for the risk weighting preference to cover, at least, liquidity risk mitigation and over-collateralisation, the role of competent authorities and the development of existing investor information requirements.

In the light of the EBA's opinion, the Regulation strengthens the conditions for granting preferential supervisory treatment to covered bonds under the Capital Requirements Regulation.

The amendments introduced build on the current supervisory treatment, but add requirements for minimum over-collateralisation and substitution assets, thereby strengthening the quality of covered bonds eligible for favourable capital treatment.

The European Parliament, in its resolution of 4 July 2017 entitled 'Towards a pan-European framework for covered bonds', supported the creation of a principle-based European framework for covered bonds.

ENTRY INTO FORCE: 7.1.2020.

APPLICATION: from 8.7.2022.

Exposures in the form of covered bonds

2018/0042(COD) - 18/04/2019 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 426 votes to 103, with 39 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds.

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

The proposed Regulation aims to amend Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) by providing for additional requirements for covered bonds, which will enhance the quality of covered bonds eligible for preferential capital treatment as defined in Article 129 of the Regulation.

On 20 December 2013, the Commission requested to the European Banking Authority (EBA) to provide an opinion regarding the appropriateness of the risk weights set out in Article 129 of Regulation (EU) No 575/2013. According to EBA's opinion, the preferential risk weight treatment laid down in Article 129 of that Regulation is, in principle, an appropriate prudential treatment.

However, EBA recommended that further consideration be given to the opportunity of complementing the eligibility requirements as set out by Article 129 of Regulation (EU) No 575/2013 to cover, at a minimum, the areas of liquidity risk mitigation, over-collateralisation, the role of the competent authority, and the further elaboration of existing requirements on disclosure to investors.

The amendments build on the current prudential treatment but add requirements on minimum overcollateralisation and substitution assets. They would strengthen the requirements for granting preferential prudential treatment to guaranteed bonds.

The amended text specifies that Member States can decide to apply a higher minimum level of overcollateralisation to covered bonds issued by credit institutions located in their territory, without preventing other covered bonds with a lower minimum level of overcollateralisation that comply with this Regulation from benefitting from its provisions. Such a requirement serves the purpose of mitigating the most relevant risks arising in case of the issuer' s insolvency or resolution.