

EC Covered Bonds Conference

- elements for an integrated covered bond framework

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Avoid disrupting well-functioning systems - room for diversity in the Roman empire



Elements to be examined I

– what is necessary with regards to harmonisation?

Additional points to the Commission consultation paper marked by red text

Basic principles (culture, practices or non-covered bonds legislation supporting the covered bonds system):

- a) registration of the mortgage – swift and credible registration;
- b) collateral – requirements for the act of perfection;
- c) enforcement of liability;
- d) personal liability;

I. Covered bond definition and protection of the term:

- a) general European definition based on conditions for eligibility for preferential treatment (e.g. for a wide range of investors);
- b) additional criteria for eligibility for specific preferential treatment (e.g. for some more specific investors);

Elements to be examined II

– what is necessary with regards to harmonisation?

Additional points to the Commission consultation paper marked by red text

II. Covered bond issuers and system of public supervision:

a) issuer models and licensing requirements – including;

- *mapping of lending and issuance (e.g. tap issuance or potential pipeline risk);*
- *compliance of interest rate and currency terms of lending and funding (i.e. asset and liability imbalances);*
- *prepayment options (i.e. access and costs of prepayments);*
- *terms of credit commitment (e.g. 10, 20 or 30 years);*
- *terms of margins (e.g. fixed or flexible margins);*
- *joint funding models (e.g. pooling of cover pools from different credit institutions);*

b) on-going supervision and cover pool monitoring (pre-insolvency);

- *specialised supervision (i.e. supervision of covered bonds under-taken by mortgage specialists);*

c) covered bonds and the SSM;

Elements to be examined III

– what is necessary with regards to harmonisation?

Additional points to the Commission consultation paper marked by red text

III. Dual recourse and insolvency/resolution regime:

- a) definition of dual recourse principle;
- b) segregation of the cover assets;
- c) **pre-insolvency recovery steps;**
- d) administration and supervision of the cover pool post-insolvency;
- e) interaction between cover pool and issuer in insolvency/resolution;

IV. The cover pool:

- a) eligible assets: qualifying criteria and requirements (**risk of using equity to fund loans, dynamic cover pool and allowing small issuances**)
- b) **valuation principles;**
- c) coverage requirement and overcollateralisation;
- d) assets and liabilities risk mitigation: market and liquidity risks;

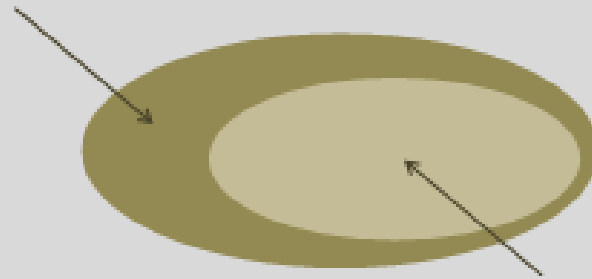
V. Transparency requirements – including:

- a) **reliable statistics;**
- b) **market information;**

Unified definition should not rule out existing regimes

Definitions of covered bonds

Covered bonds meeting definitions of article 52(4) of UCITS

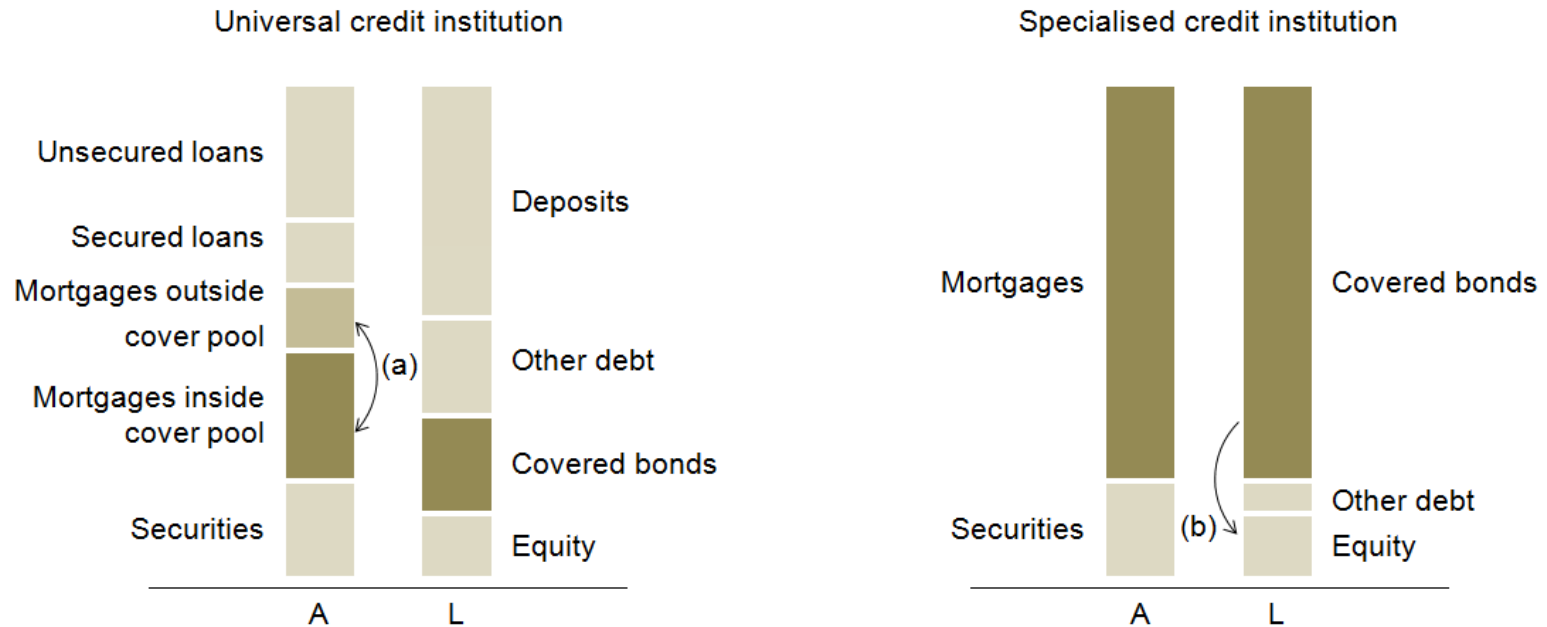


Covered bonds meeting requirements for preferential risk weights under article 129 of the CRR

An example: Specialised credit institutions cannot respond to stressed scenarios by replacing non-compliant mortgages inside the cover pool with compliant mortgages outside the cover pool. In such scenarios it is imperative that the legal status of a covered bond remains certain.

Universal vs. specialised credit institution model

Balance sheet structure of universal and specialised credit institution, stylised



(a) Non-performing mortgages or non-eligible part of mortgages inside cover pool can be replaced by mortgages from outside cover pool

(b) Non-performing mortgages or non-eligible part or mortgages inside cover pool can NOT be replaced by other mortgages since it doesn't exist

Different solutions to specific elements

- Segregation of assets
- Dual recourse
- Eligible assets – mixed pools and pooling structures
- Non-performing mortgages
- Mortgages in breach of LTV-limits
- Over collateralisation requirements – risk mitigation tools
- Liquidity buffer
- Cover pool monitor and supervision
- Cut-off mechanism in the issuer insolvency or resolution process

Covered bonds are financing SMEs in a significant proportion - based on eligible assets



Harmonisation should be built on different models
- not favour one over the other, unless merited by performance



Thank you

