ECBC
European Covered Bond Council
The Covered Bond Voice of the European Mortgage Federation

ECBC Response to ESMA Consultation paper on ESMA's Draft Regulatory Technical Standards on the content and format of ratings data periodic reporting to be submitted from credit rating agencies

Brussels, 21 October 2011

The European Covered Bond Council (ECBC)[1], representing the interests of the €2.5 trillion covered bond asset class, welcomes the opportunity to comment on the ESMA Consultation paper on ESMA's Draft Regulatory Technical Standards on the content and format of ratings data periodic reporting to be submitted from credit rating agencies (CRAs).

Despite the fact that the reporting requirements presented in this Consultation paper are intended for credit rating agencies, the ECBC would like to take the opportunity to comment upon ***question 19***, which addresses covered bonds:

- The ECBC agrees that all covered bonds, regulated in accordance with Article 52(4) of UCITS Directive, could be reported as a separate type of ratings with its unique identifier. Covered bonds are dual recourse products with recourse to the issuing bank/sponsor and a pool of high quality assets. Contrary to structured finance, investors in covered bonds have a dual claim against both the issuer and the cover pool and the issuers are credit institutions. This dual recourse is one of the core specificities of the covered bond asset class which grants it a very high quality status and differentiates covered bonds from other classes of assets. As such, covered bonds constitute a fundamentally different category of products, which justifies a separate type of rating and reporting.

- It is worth noting that the recent downgrades of various covered bond ratings were mostly a consequence of a downgrade of the issuing bank's senior unsecured rating (often caused by downgrades of the sovereign ratings) or a change in the CRAs' rating methodology, and in no way due to the deterioration of the credit quality of the underlying assets. Hence, the development of covered bond ratings should be compared with the development of senior unsecured ratings and most importantly fully separate from structured finance ratings.

- In addition, there appears to be a clear need for a thorough examination of changes in the methodologies and models used by the CRAs in assigning covered bond ratings. The ECBC is of the opinion that credit rating agencies tend to use structured finance methodologies without making the necessary and adequate adjustments required by the structural and qualitative differences that exist between covered bonds and structured finance instruments.

[1] The European Covered Bond Council (ECBC) (ecbc.hypo.org) is a platform that brings together covered bond market participants including covered bond issuers, analysts, investment bankers, rating agencies and a wide range of interested stakeholders. The ECBC was created by the European Mortgage Federation (EMF) in 2004. As of September 2011, the Council has over 100 members across more than 25 active covered bond jurisdictions and many different market segments. ECBC members represent over 95% of covered bonds outstanding.

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Finally, the ECBC would like to take the opportunity of this response to inform ESMA of the launch of its Covered Bond Label initiative, which aims to facilitate the identification of those products which possess the core features that characterise covered bonds. In parallel, the initiative seeks to highlight to investors the value and quality of covered bonds, and reinforce the trust that they can place in the covered bond asset class. The ECBC Label will also improve access to relevant and transparent information on covered bonds for investors, regulators and other market participants. The long-term objective of the initiative is to promote liquidity and to strengthen covered bonds' secondary market activity. For more information on this initiative please see (link).

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