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Mr. Fabrice Demarigny  
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**VIA EMAIL**

Berlin, 5. Februar 2003  
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**European Capital Market Policy**

- Prospectus Directive
- Addendum to the Consultation Paper, Questions 175 and 176-base prospectus

Dear Mr. Demarigny,

the Association of German Mortgage Banks welcomes the opportunity to comment on CESR's Addendum to the Consultation Paper of December 2002 for the proposed Prospectus Directive.

The Association of German Mortgage Banks (VDH) represents 19 German mortgage banks and one ship mortgage bank and is part of the Zentraler Kreditausschuß (ZKA), the joint committee of the central associations of the German banking industry, which has also submitted a response to the above mentioned addendum paper.

We therefore fully support the views expressed by the ZKA in its comments but would like to touch upon a specific point, that is of particular importance for the Pfandbrief market: The base prospectus currently envisaged under Article 5 (4) for frequent issuers of Pfandbriefe. The Pfandbrief is the largest single segment of the European bond market with an outstanding volume of well over 1.1 trillion euros. Mortgage banks are the biggest group of issuers in this market with a market share of around 60%.

According to current European legislation Mortgage Banks do not have to publish any kind of prospectus for Pfandbriefe. Investor protection is ensured by the regulations defined in the Mortgage Bank Act and as a result the Pfandbrief can be classified as a homogenous and extremely safe product documented by the ratings awarded by the large agencies.

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We welcome the fact that the Prospectus directive provides for frequent issuers of Pfandbriefe the possibility to prepare base prospectuses that are supplemented by the final terms of an offering. However, there are several points where the new rules have to be further explained on level 2.

As we have mentioned in our last response and at the hearing the most important point concerning the base prospectus is the flexibility which the base prospectus must grant to the issuer, especially in respect to the finalisation of the incomplete prospectus.

It needs therefore most of all to be clarified, that the base prospectus shall be defined as a prospectus published *once for each issuer* and *updated* on a yearly basis with all relevant information concerning the issuer and the securities to be offered to the public or admitted to trading. The frequency of the obligation to publish the base prospectus (once for each issuer) is fundamental for the market practice of frequent issuers who have to react as soon as possible to market conditions by issuing on an ad-hoc basis. It is critical that this flexibility of the issuers is maintained. It can be ensured if only the *final terms* and not a whole prospectus has to be published each time the securities are issued by the frequent issuer. Concerning the classification of the final terms a general rule is required on the basis of which it can be decided what information can be left to the final terms. Given the multitude of possible features and cases it would not be possible to specify in detail what conditions can be left to the final terms.

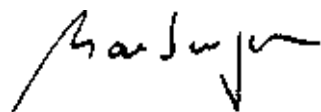
As we already explained the securities concerned are very homogenous. Therefore investor protection rules are not hampered in the proposed procedure.

The information to be disclosed in a normal prospectus and in a base prospectus could be the same provided that the final terms may be left blank and that therefore the flexibility for the investor is guaranteed. It would anyway be useful to analyse in detail the necessity of the different parts of the Bank Registration Document in order to be able to judge which elements could be left out.

We consider it essential to develop valid disclosure requirements for base prospectuses so as to give market participants enough time to contribute to the search for a practicable solution for all market participants during the consultation process. Especially for the base prospectus which is not further defined yet it is essential to consult the market for a second time even if this meant that the consultations would not end in March but at a later date.

Please do not hesitate to contact us with any further questions or requests for information.

Sincerely,



Dr. Christian Marburger



Annette Zimmer

**Anlage**



2002-02-06-CESR ZKA statement fina 2002-02-06-CESR ZKA statement final