Covered bond pool transparency: the next stage for investors

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1 Terms of reference

ICMA have asked Richard Kemmish Consulting Limited to prepare this report addressing ways to progress the ICMA Covered Bond Investor Council's Transparency initiative. Specific tasks identified towards that goal include to:

- Analyse the gap between the National Transparency Templates and the CBIC template. Identify shortfalls and in conjunction with issuers / industry bodies identify the reasons for these shortfalls,
- Analyse if the National Transparency Templates are compatible with Article 129(7) of the Capital Requirements Regulation,
- Make recommendations as to which gaps identified in points 1 and 2 above can be addressed and how to do so in practice,
- Make recommendations as to how pool disclosure can be improved in other ways compliant with the 7 Cs.

In general (non-jurisdiction specific)

- Make recommendations as to ways to improve covered bond transparency to the benefit of members

The first two of these points are addressed in section 4 discussing 'the National Transparency Templates', other than the reasons for the shortfall which are summarised in section 5 'Market Opinions'. The recommendations are contained in section 6.

In order to undertake this task I have conducted meetings and discussions, on both formal and informal basis with relevant market participants including:

- Representatives of the trade associations representing issuers in Germany*, the UK and the Netherlands,
- Representatives of Bloomberg and the European Data Warehouse,
- Investors,
- The European Covered Bond Council.

All of whom I would like to thank for their time and constructive approach to the discussion.

** The analysis of the German template was based on that used for end of Q1 2014. For Q2 2014 onwards a new template has been introduced which includes certain additional data, as taken into account on p.12.*

2 Executive summary

2.1 Background

The ICMA Covered Bond Investor Council (hereafter 'CBIC') launched a data transparency initiative in March 2011 culminating in the publication of standardised disclosure templates and guiding principles (the 7-C) rules in May 2012.

Although the CBIC template helped the issuer community understand investor wishes in terms of transparency, and was by the issuer community as a benchmark to understand exactly what investors want to see, as was identified by Andreas Denger, Chair of the CBIC at the ICMA/Covered Bond Report conference in Frankfurt in May 2014, progress towards the disclosure defined in the template has been disappointing over the last two years.

In the meantime, two significant developments have taken place in this field:

- The European Covered Bond Council ('ECBC') as part of the Covered Bond Label Initiative has facilitated the introduction of a series of National Transparency Templates ('NTT') which specify minimum pool disclosure on a country specific basis.
- The Capital Requirements Regulation has, in article 129(7), required that covered bond investors satisfy themselves on the availability of relevant data on cover pools before applying a preferential risk weighting to their holdings of covered bonds.

It should also be noted that in the meantime market conditions have significantly eased, as a result of greater market liquidity and reduced concerns over Eurozone credit. This has altered the 'balance of power' towards issuers with most covered bonds now being significantly over-subscribed.

2.2 National Transparency Templates

The National Transparency Templates of the Netherlands, the UK and Germany were compared to the CBIC template for pool data. Of those fields which were relevant (that is excluding for example questions about commercial mortgages in jurisdictions that do not allow them in the cover pool) roughly 69% of the data requested was available of which 55% was in the national transparency template and a further 14% easily available elsewhere (typically ‘static’ information, such as “what is the minimum legal over-collateralisation?”).

Minor definitional and reporting differences have been overlooked for these purposes. It should also be noted that all three of the national templates additionally provide information that is not asked for in the CBIC template but which is typically specific to that jurisdiction.

The national templates are primarily focussed on pool data therefore they had very little overlap with the CBIC’s issuer section of the disclosure template, to the extent that this was not worth quantifying.

It is anticipated in all three cases (and indeed in other jurisdictions) that the national templates will conform to paragraph 129(7) and this is a stated objective of the ECBC by December 2014. However, how this will be verified varies significantly by jurisdiction.

2.3 Market Opinions

Reasons for non-compliance with the CBIC data template included practical and cost considerations, non-comparability of data, preference for existing legal definitions of required disclosure and a lack of demonstrable benefit to reporting in this format.

Reasons for non-compliance with the CBIC issuer template were more significant and far reaching and included legal constraints on disclosure, incomparability with pool data, organisational complexity and, again, perceived lack of benefit.

Issuers and investors alike were of the opinion that the national transparency templates were a very significant step forward. The fact that national templates were a minimum was identified as holding back the disclosure of some relevant data in some jurisdictions (for example, income multiples in the UK or LTV stratifications in Germany which are excluded from the respective national templates). There was also good recognition of the practical impediments to full disclosure and of the lack of comparability cross border.

Specific shortfalls identified by investors which could be addressed include the absence of one ‘go to’ data repository for all issuers, the lack of documentary and/or structural disclosure of programmes and the lack of analytical tools for covered bond pools. One investor highlighted also that they expected regulatory pressure for greater disclosure - akin to that in the securitisation market – would increase over time.

2.4 Recommendations

My recommendations are as follows:

1 Supporting a one go to centralised data storage place,
2 Re-assessing the investors data needs – in particular in structural data information,
3 Promoting further disclosure in future transparency projects at national and European level.

3 Background

3.1 CBIC initiative

In order to facilitate the better credit analysis of covered bonds and in recognition of the growing complexity and fragmentation of the covered bond market, the ICMA Covered Bond Investor Council Transparency Working Group began working on a standardised template for data reporting in 2011.

This initiative was announced at a plenary meeting of the European Covered Bond Council in Stockholm in March of that year and was followed by an extensive, two-stage period of consultation with market participants. At a meeting of investors in October 2011 practical aspects of the template were discussed and the second round of consultations started.

The process culminated in a presentation by Andreas Denger at the CBIC/Covered Bond Report conference in Frankfurt in May 2012. In addition to the officially launching the templates, and explaining the modifications that had been made to them as a result of the consultation process, Mr Denger also announced the 7-C principles that would underlie the process.

The templates had three components - General Issuer Data, Cover Pool Data and Key Concepts Explanations – which combined were designed to provide both the qualitative and quantitative information needed by investors on a basis that was both comparable between markets and comprehensive. The General Issuer Data consisted of 51 fields (for example, 'Total Balance Sheet Assets'), Cover Pool Data had 65 fields (for example, 'nominal value of cover pool') and the Key Concepts Explanations had 16 headings (for example, 'How is the overcollateralization ratio calculated?'). In addition there was scope to include additional information such as credit ratings.

In parallel the 7 transparency criteria which were announced in this presentation were guidelines to ensure the quality and usefulness of the data presented in the template, see box.

The 7-C principles

– Comparable: The data is reported according to a standardised template
– Comprehensive: The template aims to provide European comparability and not only national
– Continued: The data must be reported and updated on a regular basis
– Coordinated: The template is the result of compromise between investor needs, discussions with issuers representatives to ensure the data is easily available
– Circumstantial: The template recognises differences between jurisdictions and holds a key
concept list for each jurisdiction to explain their own specificities
– Conceptional: Investors are able to understand and readily use the reported data presented on a stratified basis
– Cost-free/easily available: Free data access via a dedicated platform (links to data)

In May 2014, again at the ICMA/Covered Bond Report annual conference in Frankfurt, Mr Denger reviewed progress made in the intervening two years. His comments were highly critical, in particular pointing out, with regard to the template, that "Hardly any issuer is actively/properly using it". He went on to review progress on the 7-C list and highlighted significant shortfalls in particular with regard to the data not being Comprehensive, Co-ordinated, Circumstantial or Conceptual.

Mr Denger recognised that a possible reason for the lack of progress was a need for issuers to see a real tangible benefit to greater disclosure but warned of risks of not making progress in particular to the good reputation of the covered bond market and the risk of disclosure being imposed on the market from an external source.

Despite this, the European Banking Authority recently reviewed the template in its report on EU Covered Bond Frameworks and Capital treatment.

3.2 Other relevant developments

Since the launch of the initial template there have been two significant developments in this field, the introduction of the National Transparency Templates and article 129(7) of the Capital Requirements Regulations.

National Transparency Templates

The European Mortgage Federation/European Covered Bond Council (ECBC) launched the Covered Bond label in mid-2012 with various objectives including better defining the asset class and improving investor access to information about labelled programmes.

They subsequently amended the eligibility criteria for the label to include the following clause:

> *"2 (c) Issuers are committed to providing regular information enabling investors to analyse the cover pool, following the guidelines developed at national level"*

In an appendix they noted that "National templates vary in view of the different characteristics of each market" and went on to list "recommended transparency items to be included where appropriate". It is worth highlighting that:

- the transparency items listed have substantial similarities to the CBIC pool data template but are generally less comprehensive,
- they do not include any of the issuer template details or key concepts (although this has been addressed elsewhere by the ECBC, in particular in the comparative database), and
- the list is intended only as a guideline.

Thirteen national templates have now been published and are available on the covered bond label website. The templates are not static and have evolved over time.

Luca Bertalot, Secretary General of the European Mortgage Federation, discussing the templates recently, commented that the CBIC initiative was extremely important and *"had helped us to understand investor wishes in terms of transparency…Every single issuer community has used this as a benchmark to understand exactly what investors want to see".*

The European Banking Authority described the National templates thus, *"[the national templates are a]...valuable starting point for the harmonisation of covered bond disclosure standards". However "..it is also noted that the national templates differ and are not always aligned in terms of the type and amount of information disclosed, with the disclosure template elaborated by the investor's association [that is, the CBIC template] as well as with the disclosure requirements imposed on covered bonds for the purpose of preferential risk weighting."*

Article 129(7) of the Capital Requirements Regulation

Article 129 of the Capital Requirements Regulation defines covered bonds for the purpose of allowing investors to apply a lower risk weighting to their holdings. Historically this article has focussed primarily on the definition of eligible assets and compliance with the UCITS definition of covered bonds.

However, for the first time this regulation now requires, in paragraph 7 that investors ensure that they have access to pool data, specifically:

"7. Exposures in the form of covered bonds are eligible for preferential treatment, provided that the institution investing in the covered bonds can demonstrate to the competent authorities that:

(a) it receives portfolio information at least on:

(i) the value of the cover pool and outstanding covered bonds;

(ii) the geographical distribution and type of cover assets, loan size, interest rate and currency risks;

(iii) the maturity structure of cover assets and covered bonds; and

(iv) the percentage of loans more than ninety days past due;

(b) the issuer makes the information referred to in point (a) available to the institution at least semi annually."

Whereas this text is only strictly of relevance to the risk weight of covered bonds held by credit institutions, it seems prudent that other classes of investors will seek to follow it. More than one respondent commented that the paragraph was lacking precision (for example, does the definition of value refer to nominal or PV, indexed or unindexed, and post or pre-hedge value?). One commented that most investors would consider it as guidelines and ascribed the lack of precision to a recognition of national specificities of covered bond frameworks.

Other developments

It should also be noted that in this time market conditions have significantly eased, as a result of greater market liquidity and reduced concerns over Eurozone credit. This has altered the ‘balance of power’ towards issuers with most covered bonds now being significantly over-subscribed. Whereas this is inevitably a short term feature of the market it was pointed out by more than one individual that it is likely to reduce the willingness of issuers to, for example, incur substantial costs to address disclosure shortfalls.

Further, significant progress on pool disclosure and data availability has been made in the securitisation market including, inter alia, disclosure via the European Data Warehouse and greater pool analytical tools on Bloomberg. The data needs of this market are of course very different from those of the covered bond market – see box – but it is worth noting the broad approval that the securitisation market has achieved, the improvement in their treatment by regulatory bodies (at least partly as a result of this) and their higher standards of disclosure than are available in the covered bond market.

Reasons for different disclosure standards in RMBS and covered bond pools

1: Dual recourse

Securitisations rely on the performance of the assets in the pool to service the interest and payment due on the bonds. Obviously the credit worthiness of the underlying assets is therefore of direct relevance to the credit of the bond itself. Whereas in the case of covered bonds, the primary obligor is the issuing bank. Even in the event of a failure of the issuer it is highly unlikely that the underlying assets in the cover pool will be used to service coupon and principal payments per se, it is generally accepted that the assets will be more likely to be sold to service the debt.

2: Prepayment

Most (not all) securitisations are structured as floating rate prepayable bonds. The economics of the bond, in particular its average life is therefore frequently dependent on the repayment behaviour of the underlying assets, the modelling of which requires full disclosure.

3: Revolving pool

Covered bonds require the ongoing substitution of performing assets for failing assets in cover pools. Therefore the pool at any one point in time is an imperfect predictor of the characteristics of the pool at the insolvency of the issuer. Whereas some securitisations allow the substitution of assets this is not typically for reasons of credit performance, even in these cases the pool today is a good predictor of the credit quality of the pool in the future.

4: Regulator

UCITS paragraph 52(4) requires national regulators to put in place safeguards for the benefit of covered bond holders. Whereas there are significant national differences in how this is enacted, and no prudent investor would delegate their credit analysis to a third party, in most jurisdictions most investors take considerable comfort that the regulator has performed substantial analysis on the cover pool, reducing the need for them to do so.

4 National Transparency Templates

4.1 National Transparency Templates compatibility with CBIC template

The templates of Germany, the Netherlands and the UK were compared to the CBIC template.

The German template conforms to the requirements of section 28 of the Pfandbriefgesetz, the UK and Dutch templates conform to requirements contained in their respective regulations. To the extent that disclosure standards are laid down in law or regulation, the three chosen jurisdictions are already not fully representative, many substantial covered bond markets do not proscribe disclosure standards for all legislative covered bonds (including for example, Austria, Italy, Portugal and Sweden).

In the majority of cases, the data requested by the CBIC was available either in the national templates or elsewhere. Across the 3 jurisdictions an estimated 69% of the data fields that were relevant for each jurisdiction were available, 55% in the National Transparency Template and a further 14% elsewhere. In Germany this was 44% and 54% respectively, in the Netherlands 61% and 78% and in the UK 64% and 81%. It is important to clarify that these percentages in no way imply a qualitative judgment as to the relative levels of disclosure in these three jurisdictions. The German analysis was based on the template used for Q1 2014 reporting, based on the template used in Q2 50% of the data is now available in the template and 60% taking into account data available elsewhere.

The denominator of the above is defined as number of data field ‘relevant for each jurisdiction’ – for example it excludes questions about commercial mortgages in jurisdictions that do not allow them. In the numerator of the above, ‘available elsewhere’ mainly refers to static information (for example, what is the legal minimum over-collateralisation?), which although not explicitly stated in the templates could be easily obtained elsewhere either on the websites of industry bodies, national associations or the ECBC.

Other methods of calculation are possible and equally valid. Section 7 contains links to the CBIC and three national templates if readers wish to recreate this analysis with their own interpretations.

The available/not-available analysis is a simplification. The main categories of answer are:

- ***Data requested by CBIC, not disclosed in national template***
  Some data is generally not available in templates, such as the impact of a 15% decline in house prices, or the percentage of ECB eligible assets in the pool. Other data fields are reported in some, but not all of the templates, such as reporting of 'self certified' loans which are a meaningful metric in some mortgage credit cultures but not others.

- ***Data requested by CBIC, disclosed in a different way***
  For example, the CBIC template requests the weighted average life of the assets in the cover pool. The German national template breaks down the cover pool in a stratification table but does not provide the actual average life. In theory a good approximation could be derived from this table (for example, assume all assets between 2 and 3 years have 2.5 years remaining life) but which is the more useful format of disclosure is a moot point.

- ***Data requested by CBIC, not disclosed in national template but disclosed elsewhere***
  Some of the CBIC fields are static data, examples of which include, whether ABS or construction loans are eligible for inclusion in the pool, what the legal and contractual minimum over-collateralisation levels are and whether the bonds are hard or soft bullet (using the template terminology but accepting that this terminology are disputed).

  Whereas this is not repeated in the national template per se it is invariably disclosed elsewhere on issuer investor relations pages on a one-off basis. Inclusion in a standardised template would therefore appear trivial.

- ***Data disclosed in template, not in CBIC request***
  All three templates disclose substantial data not required in the CBIC template. In the case of the Dutch and UK templates for example there is extensive disclosure of the various terms and results of the asset cover test, although this is very relevant to investors, it is also very jurisdiction specific. Some structures use this test, some do not.

  Similarly the German national template breaks down residential mortgages into, for example, apartments, single family homes, etc.

There is also data on details requested by the CBIC but in a more detailed format. For example, CBIC request disclosure of aggregate delinquent loans, whereas the Dutch national template provides this information with a break down by various buckets and with average LTV ratios of loans in each bucket.

Additional disclosure of this type reflects both that the CBIC template was a compromise - it was recognised as impractical to ask for every conceivable piece of information about the cover pool - and that it is a pan-European rather than a national template, hence, it was not appropriate to ask for data specific to one or a small number of jurisdictions.

- ***Definitional differences***
  There are definitional differences in the presentation of several data fields, for example the CBIC requires that LTVs are broken down into: 0 - 40%, 40 – 50%, etc. whereas the first UK category is the 0 – 50% bucket whilst the Dutch template reports 0-10%, 10-20%, etc.

  Whereas this is trivial for the purposes of assessing credit, it does preclude an easy and direct mapping of existing data to a common format.

- ***Irrelevant data***
  For example, of the 65 fields included in the CBIC template, 16 are irrelevant for both the Dutch and UK templates as they refer to commercial real estate or public sector assets. Similarly data about the percentage of RMBS in the cover pool is irrelevant in jurisdictions that don't allow it, although on a literal interpretation of the CBIC template it is not provided.

All of the above relates to pool data. The National Transparency Templates which by their nature are cover pool focussed, typically contain include little or no Issuer specific data as requested. A mapping of the CBIC Issuer template to the national templates would, therefore be pointless.

<u>*4.2 National Transparency Templates compatibility with 129(7)*</u>

It is a stated objective of the ECBC that by the end of 2014, the national industry bodies responsible for each National Transparency Template should be able to confirm that the template satisfies the requirements of 129(7). If this is achieved investors will be able to demonstrate to their competent authority that they meet the requirements of this article simply by reference to whether their holdings are eligible for the ECBC label.

The European Banking Authority has stated that: *"Not all the National Transparency Templates seem to align with the disclosure requirements provided for in article 129 of the CRR".* They particularly highlight shortfalls in the reporting of loan size, currency risk, asset and liability maturity structure and arrears. Based on my own review, I concur with this opinion, but would note that the templates are evolving with a review to compliance by the end of 2014.

There are clearly significant national differences in how to evaluate whether the National Template meets the requirements of 129(7) (including in countries not explicitly covered in this survey). Anecdotally it appears that some jurisdictions are taking the approach that their template's conformity with this article is 'self evident', whilst other jurisdictions are seeking formal legal or regulatory confirmation of this.

This does not appear to be a concern for investors who are prepared to form their own opinions on this point. One respondent highlighted that he felt that 129(7) was *'merely a guideline'.*

5 Market opinions

5.1 *Issuer views on Pool transparency*

From conversations with the national representatives of all three jurisdictions (and indeed less formal conversations with individual issuers) some common elements were evident:

- All three jurisdictions are committed to providing a high standard of transparency to investors, the current 'sellers market' in no way detracts from that commitment. Further, there was a general acceptance of Andreas Denger's warning (see above) that, notwithstanding the current high regard that covered bonds are held in by regulators, inaction on the subject of pool transparency may have adverse consequences in the medium term. Whether this might extend to a regulatory requirement to disclose loan-by-loan information on assets in the cover pool was a theme of two of the three conversations with national representatives.

- Similarly all three jurisdictions felt that their current disclosure standards were good both in absolute terms and relative to previous levels of disclosure. It was pointed out that the regulated and/or legal nature of the disclosure ensures both that the data quality is good (effectively addressing the 7-C principles) and that it is appropriate for national specificities as judged by the regulator.

- ***Practical considerations***
  There was however a recognition that existing reporting arrangements for pool data were onerous and overlapping (with one representative pointing out that issuers already have to report essentially the same information to their regulator, central bank and the covered bond label in different ways).

  As a consequence of both the perceived quality of the current reporting and the duplication of effort that already exists it was clear that, in order for the national representatives to realistically ask their members to embark on yet another, potentially expensive, data mapping process, it was clear that there needs to be a demonstrable benefit to this exercise.

- ***Commercial considerations***
  In addition to the costs, there continue to be commercial objections to an over-standardisation of data. For example, it was pointed out that a direct comparison of

LTVs between jurisdictions was misleading due to different calculation methodologies and because of different levels of volatility of house prices in different jurisdictions. A mortgage with a reported 70% LTV in one jurisdiction may in fact be more risky than one with an 80% LTV in another. But the standardisation of reporting in a common format risks obfuscating this detail.

- ***Legal considerations***
  Some issuers currently require that pool information is only made available to known investors (that is, to access the information you must disclose your identity), behind a disclaimer / access terms, and/or is not available to certain classes of investors (usually US investors for programmes that have not been registered with the Securities and Exchange Commission).

5.2 Investor views on Pool transparency

Investors spoken to raised several concerns about the current availability of data.

Several complained about the difficulty of finding data about the pool that is requested in the CBIC template but which is not included in the national templates as it does not typically change from one reporting period to another, for example swaps, levels of mandatory over-collateralisation or whether RMBS are allowed in the pool. As highlighted above, this was a source of significant discrepancies between the national transparency templates and the CBIC template. In the three jurisdictions specifically considered most of this data is relatively easy to find, however this is apparently not the case in certain other jurisdictions.

Investors differed in the way in which they would use pool data. Some use it on an ad hoc basis, for example when an issuer is downgraded or a switch idea is being considered. Others would like to use it more systematically and on an aggregated basis across their holdings (what is the average LTV of mortgages in my Dutch bond cover pools?). The currently diverse locations of pool data are a minor problem for the first group but very significant problem for the second who typically express a strong preference for one ‘go to’ data location.

With regard to the National Transparency Templates there was overwhelming support for the initiative in general but a recognition of certain limits in practice, including

- That the national templates as a minimum standard sometimes precluded further disclosure in practice. As one investor put it ‘the convoy moves at the speed of the slowest ship'. The same investor said that in one case they used to be able to receive information on the income multiples at which loans were advanced but as this was not now part of the national template, they had lost that data. Obviously data could be disclosed on a voluntary basis but the standard templates appear to discourage this.

- The national templates do not exist for all jurisdictions. To the extent that they were developed as part of the ECBC label initiative (which is only available to CRR compliant covered bonds in the EEA), several significant jurisdictions including Canada and Australia are not included
- Similarly, even in those countries included many issuers have chosen not to apply for the label and are therefore not on the ECBC's site

In general it was clear that a single unified site for all issuers and jurisdictions with room for voluntary disclosure of data over and above that mandated by the National Transparency Templates would be a significant development for many investors.

5.3 Issuer views on Issuer data

Practical objections to the disclosure of issuer data were far more significant than to the disclosure of pool data. Further these objections were not tempered by an awareness of any material benefit to this disclosure.

Typically there is already substantial infrastructure in place for the disclosure of corporate level data by issuers. This is primarily driven by the needs of more price sensitive markets (in particular those for equity and capital bonds), as such there are invariably significant legal impediments to the disclosure of potentially price sensitive information outside this framework. As one issuer has commented in the past, 'I don't tell my equity investors all of that information, why should I tell covered bond investors?'.

A further consequence of the existing reporting infrastructure is that corporate data is often reported on a very different basis and frequency from pool data. For example, pool data may be reported on a monthly basis but subject to annual audit, whilst corporate data may be reported quarterly subject to quarterly audit sign-off. Whereas the resultant mismatch should not present an insurmountable problem for investors it does detract from the quality of the data provided. It also demonstrates that the analysis of covered bond pools and bank corporate credit are distinct exercises with little cross-over or potential for synergy.

A further issue that was highlighted was the potential for confusion with regard to the entity that was being reported. Depending on the structure used in a jurisdiction the information could potentially refer to the issuer itself, the parent of the issuer (for example when the issuer itself is a special bank guaranteed by a universal bank) or another member of the issuer group (when for example bonds are issued in one country but the credit worthiness of the issuer group mainly depends on an ultimate parent in another jurisdiction).

This picture is further confused in the case of banking groups with more than one covered bond issuer in a country, for example as a result of a merger or with issuing entities in many jurisdictions. It was also (understandably) unclear to one respondent whether data should be reported on a solo or consolidated basis.

5.4 Investor views on Issuer data

Investors acknowledged the significant hurdles to full disclosure highlighted by the issuers but did not express significant concerns about this.

Although some investors clearly base their covered bond buying decisions entirely on issuer creditworthiness rather than, say the cover pool or their views on the structure and legislation none that I spoke to admitted to this. Most highlighted that the analysis of the issuer's creditworthiness is outside the scope of the covered bond credit analysis, frequently undertaken by different departments with their own existing relationships with issuer investor relations.

5.5 Other comments made by investors

In addition to the pool and issuer disclosure comments it was clear that investors had other information needs that they felt were not currently being met.

There was felt to be either poor disclosure or difficulty in finding disclosed data with regard to several key details, including:

- Swap counterparties in the pool. Whereas both the use of swaps in practice and the disclosure of this vary significantly by jurisdiction, it was felt that this was a very significant information shortfall in many cases. One investor highlighted the situation of a troubled issuer whose swap exposures were found to be vast and very material to their credit situation, but about which there was no information before their problems emerged. One investor commented that they have resorted to phoning up issuers to ask them about their swap counterparties.

- The relationship between the parent bank and its special covered bond issuing bank. In particular the degree of support or guarantees. Again, this is very much a jurisdiction specific concern.

- Over-collateralisation commitments. It was noted that voluntary commitments to maintain over-collateralisation over and above statutory minimums varied significantly in how available they were. One issuer's commitment for example was contained in a trust deed rather than the prospectus, which has significant legal implications.

- Soft bullet terms, including the period of the extension, the rate paid on the bonds during this period, the consequences of an extension trigger and, in at least one case, which bonds off a programme were hard bullets and which soft. Whereas this information would typically be available in pricing supplements and in some cases (partially) available on Bloomberg, it is rarely readily available and comprehensive.

The above are a sample of information needs currently inadequately met. A more comprehensive list would necessitate a detailed consultation with the market.

6 Recommendations

Comparing the CBIC template for pool data with the National Transparency Templates of the Netherlands, the UK and Germany it was found that roughly 69% of the data requested was available of which 55% was in the National Transparency Template and a further 14% easily available elsewhere. Yet there is a lack of progress in adhering to the use of the CBIC template, as other disclosure projects – the NTTs and national regulators requirements – have taken precedence for issuers.

Although investors have appreciated the efforts for more disclosure, there is still a clear need for data that is easily accessible, comparable and goes beyond the minimum requirements set by the ECBC Label.

6.1 Supporting a one go to centralised data storage place

One of the premises of the CBIC template was to support the emergence of a standardised disclosure mechanism which ensured that covered bond investors could access easily data and be able to compare it.

The National Transparency Templates have set a minimum European-wide but it has not been taken up by all jurisdictions or issuers, and has discouraged the availability of valuable data.

The CBIC should be considering in conjunction with data aggregators (such as Bloomberg or European Data Warehouse) ways in which the problems identified in sections 4 and 5 above could be ameliorated to improve the cross border comparability of the data, on the ease with which analytical tools could be developed for this (for example for the measurement of risk exposures across multiple pools) and viable commercial arrangements (who pays?).

I would propose that this should be initially via a meeting between the CBIC members and interested data aggregators, potentially followed by a consultation of members on the best way to progress this.

If CBIC members, regulators and other interested parties consider that this pooling of data adds sufficient value, that in itself may be the demonstrable benefit which issuers require to overcome some of the practical problems identified in section 4, above.

6.2 Re-assessing the investors data needs – in particular in structural data information

As this is not the object of this report, there has not been any systematic review of the investors' needs for more information, But preliminary discussions show clearly that investors had other information needs that they felt were not currently being met – because of either poor disclosure or difficulty in finding disclosed data with regard to several key details

In fact the CBIC template had identified such shortfalls (for example, whether RMBS is an eligible asset was a question asked in the CBIC template but not reported in any national templates).

More significantly though it could also encompass other structural features that are currently not easily available to investors in a central site but are potentially significant. In this regard for example, note that the Dutch national template provides information on swap counterparties and the UK template also details programme trigger events. As one investor in particular highlighted the importance of swaps to the overall creditworthiness of covered bond programmes and given the lack of information on this topic currently, it would seem important that disclosure of these details in particular would be highly desirable.

As a minimum the database could serve as a 'document library'.

The level of information in this database will vary heavily by jurisdiction depending on how common it is for issuers to enter into voluntary structural features over and above those laid down by law or regulation.

6.3 Promoting further disclosure in future transparency projects at national and European level

Issuers have focused their attention on the National Transparency Templates and the regulators requests for further disclosure. However it is clear that there is a need for increased disclosure notably as regards pool data.

It is clear that whereas the required data on an issuer level is a 'nice to have', the obstacles to its delivery and the relatively small benefit that can derive from this information for most covered bond investors suggest that significant progress on this objective is unlikely.

Other more price sensitive markets, in particular the equity market, will always be the primary driver of disclosure and the substantial infrastructure which already exists is unlikely to be amended to take into account the requirements of the covered bond investor base by the vast majority of issuers.

The CBIC as the voice representing investors in the market should be part of the discussions at ECBC level and regulators level (notably the EBA in light of their recent report) to promote further, meaningful transparency in the covered bond market.

7 References

CBIC templates
http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Asset-Management/covered-bonds/CBIC-issues/final-cbic-european-transparency-template/

CBIC initial consultation period
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