International
Capital
Market
Association

ICMA

ASSET MANAGEMENT AND INVESTORS COUNCIL

COVERED BOND INVESTOR COUNCIL

DBRS Ratings Limited

Fitch Ratings Limited

Moody's Investors Service, Inc.

Standard & Poor's Financial Services LLC

London, 7 August, 2013

Dear Sirs,

Introductory comments

The International Capital Market Association (ICMA) represents participants of all types - issuers, institutional investors, and intermediaries - in international fixed income bond markets. ICMA is one of the few European-focused trade associations having both buy-side and sell-side representation. The ICMA Asset Management and Investors Council ('AMIC' or 'the Council') was established in March 2008 to represent the buy-side members of the ICMA membership. AMIC is composed of a wide variety of investors and asset managers. The AMIC's composition embraces the diversification and the current dynamics of the industry – representing the full array of buy side interests both by type and geography. While ICMA's specific area of expertise on the sell side is in the fixed income sector, the AMIC's focus is on a broader set of issues and sectors which are of concern to its membership, rather than having a specific product focus. AMIC's focus is on asset management in Europe, while recognising that asset management is a global business.

The Covered Bond Investor Council (CBIC) is a permanent working group of AMIC.

CBIC statement regarding Covered Bond rating methodologies in a challenging environment

The CBIC is aware of rating volatility in Covered Bond ratings in particular as well as of other ratings in general, given the current environment characterised by low growth and unconventional monetary policy and a regulatory landscape in flux.

Furthermore, we acknowledge the challenge for rating agencies in this environment to give a credit opinion “through the cycle”; adapting rating methodologies, in times of changing capital market rules, whilst ensuring consistency and comparability of rating opinions over time.

It is obvious that these are conflicting targets, so it would be naive in our view to call for a flawless approach.

We also think there is no such thing as a natural floor for Covered Bond ratings or in other words that a Covered Bond does not deserve a certain minimum rating just because it is a Covered Bond. However we do think that the specific features like systemic relevance, regulatory treatment and central bank support should be mirrored accordingly within the CB rating process.

Therefore we would like to encourage rating agencies to either act faster with regard to changes in their respective rating methodology in the light of the changing regulatory landscape, or to be more cautious in terms of communication and actual rating changes in the light of changing regulation for banks as issuers of Covered Bonds.

While it is also obvious that different rating methodologies lead to different rating outcomes which does not per se create difficulties for investors, the current situation at some issuers where one agency has higher ratings on the issuer level than another agency has on the Covered Bonds from that self-same issuer simply cannot in our view be explained by different methodologies.

Given the fact that for some Covered Bond market segments ratings are at the very edge of the investment grade universe, this observable fuzziness in ratings becomes relevant to the market due to individual investment guidelines as well as regulatory constraints.

As ratings are always by definition only opinions and given the fact that the issue of support (for banks as Covered Bond issuers as well as amongst countries themselves) surely remains one of the key rating drivers for the time being, there will for good reasons always be a qualitative aspect in evaluating support, whether it be in a given investment decision or a rating opinion.

However, in the light of recent rating actions, we tend to wonder whether the question of support is always treated symmetrically, i.e. a regulatory induced trend towards lower support for banks in general compared to generally friendly regulatory treatment of Covered Bonds.

Although we do not want to give a preference to a certain rating approach, we nevertheless wish to kindly ask the rating agencies to:

1) Permanently review their rating methodologies as well as their ratings themselves with higher frequency, in the light of upcoming regulation.

2) Caution themselves with regard to downgrading Covered Bonds automatically following a bank senior unsecured downgrade.

3) Take into account factors like systemic importance and the dimension of the corresponding national Covered Bond market when assessing the starting point/anchor point for Covered Bond ratings.

4) Consider within a rating approach that not only the starting point of a Covered Bond rating might be subject to various parameters as mentioned in 3) above but also that the observable rating difference between a Covered Bond rating and an issuer rating might also be dependent on factors like central bank behavior, state of domicile or the systemic relevance of the Covered Bond for the national mortgage market. Furthermore, the absolute rating level of the state of domicile seems to limit implicitly or explicitly the maximum deviation between Covered Bond ratings and issuer ratings which might lead again to rating cliffs and automatic rating actions like that mentioned under 2).

We remain open to any discussion around the topic of Covered Bond ratings and would like to emphasise once more that we believe rating agencies are a contributor to transparency in the market, which is appreciated by market participants.

Yours faithfully,

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