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"ECBC Position Paper on the Inclusion of Covered Bonds as Extremely High Liquid Assets (Level 1) under the Liquidity Coverage Ratio (LCR)"

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In the context of the ongoing debate on the Liquidity Coverage Ratio (LCR), the European Covered Bond Council (ECBC) has today published a position paper which puts forward the case for the inclusion of covered bonds as Extremely High Liquid Assets (Level 1) under the proposed LCR on the basis of:

- The Capital Requirements Regulation's (CRR) explicit reference to covered bonds as extremely high liquidity assets;
- The empirical evidence presented in European Banking Authority (EBA) studies; and
- The risk of unintended consequences and drawbacks, which may derive from the incorrect use of criteria-based definitions.

> *"The inclusion of covered bonds in Level 1 would mitigate against over reliance on sovereign debt by the European banking sector and would facilitate the objective of delinking the sovereign from the banking sector."*

Luca Bertalot, Head of the European Covered Bond Council

The full Position Paper is available via the ECBC website here.

Contact:

Luca Bertalot
Head of the ECBC
Tel: : +32 2 285 40 35
lbertalot@hypo.org

For further information on the activities of the European Covered Bond Council (ECBC) and the European Mortgage Federation (EMF) please contact:

Avenue de Cortenbergh 71, B-1000 Brussels, Belgium
Tel. +32 2 285 40 30
E-mail: emfinfo@hypo.org – ecbcinfo@hypo.org
Website: www.hypo.org – http://ecbc.hypo.org
ECBC Covered Bond Comparative Database: www.ecbc.eu

Notes to the Editor:

1. The **European Covered Bond Council** (ECBC) 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 December 2013, the Council has over 100 members across 25 active covered bond jurisdictions and many different market segments. ECBC members represent over 95% of covered bonds outstanding. For more information please visit the ECBC website, http://ecbc.hypo.org.

2. Established in 1967, the **European Mortgage Federation** (EMF) is the voice of the European mortgage industry, representing the interests of mortgage lenders and covered bonds issuers at European level. The EMF provides data and information on European mortgage markets and its members grant more than 75% of residential and non-residential mortgage loans in Europe.
3. With **over EUR 2.8 trillion outstanding at the end of 2012**, covered bonds are playing an important role in European capital markets, contributing to the efficient allocation of capital and, ultimately, economic development and recovery. The **EUR 707 billion issuance and the arrival of 20 new issuers during 2012** evidence the ability of the asset class to provide essential access to long-term capital market funding. This is achieved even during volatile market conditions, notably thanks to a stable investor base. Their consistently strong performance and quality features attract the attention of regulators and market participants worldwide, which, in turn, leads to an increasing recognition of the macro-prudential value of the asset class.
4. From an issuer perspective, covered bonds provide an important contribution to the enhancement of a bank's funding profile and the management of liquidity. **Benefits provided by covered bonds include**:
   - adding duration to liabilities, allowing banks to obtain long-term funding matching the maturity profile of their long-term asset portfolios;
   - providing stability to the funding mix, allowing ALM teams to increase predictability in the maturity profiles;
   - enabling issuers to increase diversification in the investor base, both in terms of geography and investor type; and
   - serving the Industry as one of the most reliable funding tools, even in times of turmoil.
5. Through the ECBC the European covered bond community has committed to develop a quality label for covered bonds. This initiative is intended to result in multiple benefits with an enhancement of the overall recognition of and trust in the asset class. The **ECBC Covered Bond Label** will facilitate access to relevant and comprehensive information for investors, regulators and other market participants. This initiative demonstrates the determination of the covered bond community to tackle the challenges arising from the crisis and underlines its active engagement in the maintenance of the high quality of the collateral assets, the improvement of transparency, and eventually, the promotion of liquidity and the strengthening of secondary market activity. Further details on the initiative can be found here and here.

European Mortgage Federation aisbl
Avenue de Cortenbergh, 71 B-1000 Brussels - Belgium | Tel: +32 2 285 40 30 | Fax: +32 2 285 40 31 | TVA BE 411 583 173
emfinfo@hypo.org | www.hypo.org