Covered bonds:
Cheap funding for banks – but at what cost?

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With an outstanding volume of about €2.1 trillion, covered bonds rank high among the main funding sources for EU banks. These specialised debt securities provide banks with attractive funding for the financing of mortgages and public authorities in many EU member states. Due to overcollateralisation, covered bonds are relatively cheap and have a longer maturity. In turn, they are also an appealing investment class for risk-averse investors (including other banks), as long as the collateral is of sufficient quality and the amount is large enough.

In March 2018, the European Commission proposed a Directive on the issuance and supervision of covered bonds, with the aim of creating an EU market and strengthening investor protection and supervision. Additionally, the Commission proposed to give covered bonds preferential treatment under the Capital Requirements Regulation.

Against these recent developments, CEPS and ECMI are bringing together specialists, stakeholders and policymakers involved with covered bonds to assess the various elements in the Commission's proposal and the likelihood that they will achieve their intended results. What further improvements should be considered? And are there potential unintended consequences that should be taken into account, such as crowding out other investors, including secured deposits in case the issuing bank fails?

Speakers:

Bernd Lucke, MEP, ECON Committee
Didier Millerot, Head of Unit - Banks and Financial Conglomerates, DG FISMA, European Commission
Thomas Broeng Jørgensen, Head of the Supervisory Policies Division, European Central Bank
Johannes Rudolph, Global Head Covered Bonds and SSA Bonds, ING Bank
Patrik Karlsson, Director, Market Practice and Regulatory Policy, ICMA

Moderator:

Karel Lannoo, Chief Executive, CEPS/ECMI