Capital Markets Union: Commission welcomes agreement on EU rules on covered bonds

An important element of the Capital Markets Union (CMU), the new rules will provide a source of long-term financing for banks in support to the real economy.

The agreed rules aim to foster the development of **covered bonds** – financial instruments issued by banks to fund the economy – across the EU, particularly in those Member States where such markets have not yet developed. They will create a harmonised EU framework without disrupting already established and well-functioning national markets. By putting in place a cost-effective and long-term funding source, these rules will help financial institutions, in particular banks, to finance the real economy across the EU. These measures will also increase cross-border flows of capital and investments and promote harmonised prudential rules for those instruments, contributing to financial stability.

Commission Vice-President Valdis **Dombrovskis**, responsible for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, said: *"This agreement is an important step towards the development of the Capital Markets Union. The CMU aims to mobilise and channel capital to all EU businesses that need resources to expand and thrive. We want to make it easier and cheaper for banks to finance companies and households. By agreeing on the proposal today, the European Union is delivering on its commitment to put in place the building blocks of the CMU".*

Vice-President Jyrki **Katainen**, responsible for Jobs, Growth, Investment and Competitiveness, said: *"Today's agreement is part of the Capital Markets Union, our strategy to strengthen capital markets and encourage investment and lending in the EU. The new rules will boost the EU-wide development of covered bonds and its use as a stable and cost-effective source of funding for European banks. This widening of the sources of financing and investment for banks should lead to overall savings in borrowing costs for businesses and retail customers".*

Next Steps

Further technical work will follow this political agreement so that the European Parliament and the Council can formally adopt the final texts under this legislature.

Background

Covered bonds are bonds backed by a separate pool of assets to which investors have a preferential claim in case of failure of the issuer. The pool of assets usually consists of high-quality assets, such as residential and commercial mortgages or public debt. If the assets in the covered pool fail to generate sufficient cash flows for the repayment of investors, issuers are fully liable towards investors with their capital. This makes covered bonds safe for investors.

Issuing covered bonds enables EU banks to obtain cost-efficient funding, which may be used to grant for example mortgage loans for housing and non-residential property as well as to finance public debt, ships and aircrafts.

Covered bonds fared well during the financial crisis and proved to be reliable and stable at a time when other funding channels dried up. However, diverse rules across Member States affect the credit strength of those instruments. In addition, covered bond markets are unevenly developed across the Single Market. While they are very important in some Member States, they are less developed in others.

The Commission adopted a proposal for an enabling EU framework on covered bonds on 12 March 2018 in the context of the broader CMU package:

- A directive providing a common definition of covered bonds, defining the structural features of the instrument and identifying those high quality assets that can be considered eligible in the pool backing the debt obligations. The Directive also establishes a sound special public supervision for covered bonds and sets out the rules allowing the use of the 'European Covered Bonds' label.

- A Regulation amending the Capital Requirements Regulation (CRR) with the aim of strengthening the conditions for granting preferential capital treatment to covered bonds by adding further requirements.

More information

Covered bonds