

# Capital markets union: Council agrees stance on EU framework for covered bonds

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EU ambassadors today took a step forward in expanding the capital markets union and promoting access to long-term finance. They reached an agreement on the Council's stance on a **harmonised EU framework for covered bonds**.

On the basis of the text agreed today, the presidency will be able to **start negotiations with the European Parliament**.

The capital markets union project is about creating new investment possibilities in a safe and stable environment. Once adopted, the new EU framework for covered bonds will contribute to this goal by encouraging the development of a type of product that proved to be very reliable during the financial crisis.

*Hartwig Löger, minister for finance of Austria which currently holds the Council presidency*

Covered bonds are financial instruments backed by a separate pool of assets – typically mortgages or public debt – to which investors have a preferential claim in case of failure of the issuer. Covered bonds are an **efficient source of financing of the economy which ensure a high level of certainty** for investors.

The covered bonds market is very developed in the EU. In December 2015, the outstanding volume of covered bonds issued by EU-based institutions reached €2.1 trillion and constituted 84% of the total volume at global level. Covered bonds' markets are particularly developed in Germany, Denmark, France, Spain, Italy, Luxembourg and Sweden, as those countries have longstanding national regimes in place.

The aim of the proposed framework (composed of a directive and a regulation), put forward by the Commission in March 2018, is to set **minimum harmonisation requirements** that all covered bonds across Europe will have to meet. This will **increase security for investors and open up new opportunities**, in particular where markets are less developed.

The proposed framework:

- provides a common definition of covered bonds;
- defines the structural features of the instrument;
- defines the tasks and responsibilities for the supervision of covered bonds;
- sets out the rules allowing the use of the 'European Covered Bonds' label;
- strengthens the conditions for granting preferential prudential treatment to covered bonds under the capital requirement regulation.

## **Next steps**

The economic and financial affairs committee of the Parliament voted on its draft report on 20 November. The Parliament's stance is due to be confirmed by a plenary vote in December 2018.

The presidency and the Parliament will then be able to begin trilogue negotiations.

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