
Minutes

**Minutes of the meeting of the
GENERAL SESSION OF THE REGULATED COVERED BOND FORUM
Held on 27 September 2012: 09:30 – 10:30
At CONFERENCE ROOMS A&B, 25 THE NORTH COLONNADE, E14 5HS**

- Present:
- Stephanie Tetu (Capital Markets Team, FSA)
 - John Wu (Capital Markets Team, FSA)
 - Jonathan Latcham (Capital Markets Team, FSA)
 - Will Rawstorne (Capital Markets Team, FSA)
 - Nicola Veall (Banking Supervision, FSA)
 - Mark Burgess (Structured Finance, FSA)
 - Steve Baker (Structured Finance, FSA)
 - Ed Lidington (HM Treasury)
 - Chris Fielding (UK RCBC)
 - Jon Katovsky (The Co-operative Bank)
 - Gary Staines (Lloyds Banking Group)
 - Neil Caskey (Lloyds Banking Group)
 - William Perkins (Abbey National Treasury Services)
 - Neil Sankoff (HSBC)
 - Nick Bourne (RBS)
 - Seena Patel (Clydesdale Bank)
 - Mat Dobson (Barclays Bank)
 - Philip Hemsley (Coventry Building Society)
 - Daren Murray (Yorkshire Building Society)
 - Nick Walsh (Leeds Building Society)
 - Rob Collins (Nationwide Building Society)
 - Irene Graham (BBA)
 - Annika Wahlberg (ICMA)
 - Luca Bertalot (ECBC)
 - Christiane Valansot (IMA)
 - Frank Will (RBS)
 - James Walsh (NAPF)
- Apologies:
- Gerard Breen (Structured Finance, FSA)
 - Charles Gundy (Bank of England)
 - Katrina Dixon (ABI)
 - Jonathan Neve (Fidelity)
 - Lucette Yvernault (Schroders)
 - Jozef Prokes (Blackrock)
 - Jane Lowe (IMA)

1. **General session (09:30 – 10:30)**

1. Welcome

ST welcomed those from the buy side who arrived following the 1st technical session.

2. RCB Market in 2012: Presentation by Rob Collins, Nationwide Building Society

Rob began by showing that both secured and unsecured debt issuance from European banks has fallen as the LTRO 1 & 2 have reduced funding requirements. It was noted that over the last year redemptions had exceeded issuance.

Turning specifically to the UK covered bond market it was noted that issuance in 2012 YTD (£13.5bn) was lower than 2011 and historical levels and that re-financing as a result of the c. £10bn of annual redemptions will depend on deleveraging, deposits and other sources of funding, most notably the Bank of England's Funding for Lending Scheme.

Spreads for covered bonds have tightened considerably prompting several issuers to come to the market. UK covered bonds have outperformed peers and now trade inside French and Dutch peers. However, the difference between unsecured and secured spreads is close to historically tight levels making senior unsecured issuance also more attractive. Overall Rob concluded by arguing that although wholesale funding will fall there will still be some covered bond issuance as continued market presence is important.

3. Overcollateralisation and Liquid Assets – update for investors

EL explained that HMT was proposing to make minor amendments to the regulations following unintended consequences arising from the treatment of liquid assets in the calculation of the IC and OC tests. EL described the proposed changes which are meant to come into force on 1 January 2013. EL clarified that the changes would apply equally to single and mixed asset covered bonds. It was noted that in finalising these amendments, the FSA/HMT attempted to get the right balance in terms of credit given to liquid assets in the calculation of overcollateralization levels. This was based on the understanding that investors investing in RCBs main intended exposure is to residential mortgages as opposed to cash or sovereign risk.

An investor asked whether these changes would be consulted on, EL explained there would not be a formal consultation but that the matter was being raised at this forum to get feedback. No comments or concerns were raised on the proposal. One investors' representative asked for the RCBC's views on the

proposed amendments. The RCBC explained that they viewed these changes positively.

4. Update on supervisory activity

JL reminded attendees of the forthcoming PRA/FCA split and explained that the regulated covered bond regime would remain distinct from general prudential supervisory activity and sit within the FCA.

JL explained that following the 2011 reviews more guidance had been issued and that the 2012 annual reviews had gone into greater detail especially as regards to the review of systems and controls. JL informed the forum that the RCB team had also begun discussions with liquidation members with the aim of ensuring appropriate contingency plans with each issuer were in place. JL thanked the Coventry for initiating the work in this area. An issuer asked about the timing of this process. JL explained the timing would differ from issuer to issuer as these discussions are part of the annual review cycle and therefore are likely to be on-going through 2013.

5. AOB

Luca Bertalot reminded attendees that the ECBC will be adopting national standards for disclosure as part of the labelling initiative. Chris Fielding clarified that this disclosure related to the regulatory form RCB 3 Annex 2D rather than loan level data form, RCB 3 Annex 7AD. The RCBC queried whether data provided to the FSA on a password protected website could also be posted on additional websites which would not be password protected. ST explained that although disclosures under the RCB regulations must be password protected there is nothing preventing issuers to replicate the same data on a different website with no password protection if they choose to do so.

An issuer then asked whether CPR assumptions could be disregarded for the purpose of the ICT test, JW confirmed that a zero CPR assumption would be acceptable.

There was then discussion of the exact timing and the extent to which the new disclosure requirements for 2013 (more specifically the provision of loan level data), are retrospective and only apply to new issuances. RCB 3 Annex 7AD should cover the entire cover pool and must be sent to the FSA within one month of the end of each quarter following any RCB issuance after 1 January 2013 (RCB 3.3.2AD). With respect to the asset notification form (RCB 3 Annex 2D), it was explained that it needed to be completed in the new format set out in the revised Sourcebook from 1 January 2013. This means that the form to be sent in January may need to be compiled with data dated as of December 2011.