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“ECBC & AFME Recommendation on Tap Issuance”

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The European Covered Bond Council (ECBC) and the Association for Financial Markets in Europe (AFME) have today announced a new joint recommendation to enable greater transparency for secondary market ‘tap’ covered bond transactions.

A ‘tap’ covered bond issuance is a privately placed trade between two counterparties, often large in size, which is transacted off-exchange. Consequently, knowledge of the transaction is not available to market participants unless they are involved in the trade, which gives rise to the problem of asymmetrical information.

The ECBC/AFME recommendation proposes a solution to this problem by way of an advance announcement from the issuer that they are about to undertake a ‘tap’ trade in a covered bond position. The recommendation is that this course of action should apply to all Euro denominated benchmark covered bonds sold internationally, which accounts for approximately 75% of the global covered bond market.

The proposed announcements would not require the disclosure of the number of bonds involved or the value of the trade; rather, they should simply state that a trade is to take place. The ECBC and AFME believe that this approach would benefit market makers by making them aware that a ‘tap’ in a covered bond position is imminent and allow them to price accordingly.

Details of the recommendation are as follows:

- In the case of a non-marketed trade, the announcement should be made by the issuer at the time of pricing.
- In the case of a trade marketed generally through a syndicate process, the announcement should be made when investors are first approached.

One suggestion as to the mechanism for making such announcements would be via a flagging-system to draw liquidity providers’ attention to the fact that a bond is about to be tapped. Two possible vehicles for such a system would be the Reuters (“Triple IS”) or the Bloomberg (“Bond Radar”) screens.

Commenting on the joint recommendation, Luca Bertalot, Head of ECBC said:

“This recommendation underlines the strong commitment of the covered bond community to enhancing general levels of transparency in the covered bond market in line with other market driven initiatives such as the ECBC Covered Bond Label.”

James Kotsomitis, head of AFME's Credit division added:

"The industry has worked hard over the last 12 to 18 months to develop a more transparent process in the 'tap' covered bond issuance market. The consultation process, driven by AFME and the ECBC, has incorporated a comprehensive range of market participant views, particularly from the buy-side and sell-side. We are confident that this key recommendation will be warmly welcomed by the secondary market."

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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 April 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 2.67 trillion outstanding at the end of 2011**, 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 695 billion issuance and the arrival of 30 new issuers during 2011** 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](#).

6. **AFME** (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu.

