Covered Bond Special

Covered bonds as eligible collateral for central banks

NORD/LB Markets Strategy & Floor Research

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Agenda

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Introduction – central bank eligibility of covered bonds

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Covered bonds are often regarded as central bank-eligible by central banks

For credit institutions, the provision of collateral is generally an important criterion when obtaining liquidity or borrowing from the central banks entrusted with monetary policy. In this context, central banks also attach great importance to covered bonds. For example, covered bonds are also included as eligible assets within the ECB Collateral Framework and, in the borrowing process, they can be deposited as collateral with the ECB when the relevant criteria are met. In an international comparison, the monetary policy instruments used by central banks vary widely. While, by way of example, the Bank of England has a total of ten operations and facilities for which collateral is provided, of which covered bonds can in turn be used as collateral in four categories, Norges Bank affords for collateral to be used solely for central bank loans. The different requirements and frameworks for the eligibility of securities also have a high degree of heterogeneity. The eligibility criteria vary, for example, depending on the issue currency, the rating, the volume issued or the jurisdiction of origin (cf. Overview table). Noteworthy in this context, for example, is the eligibility of covered bonds with the Federal Reserve, which applies solely to AAA-rated German Jumbo Pfandbriefe (covered bonds) in approved currencies. Special mention should also be given to the restriction on covered bonds issued in domestic currency on the domestic market, a limitation imposed, for example, by the Reserve Bank of Australia. Central banks such as the Bank of England and the ECB specify transparency requirements specifically tailored to covered bonds. If, for example, the external rating agencies do not comply with the obligations to provide information on covered bond ratings in the context of the ECB Collateral Framework, there is a threat that the collateral discounts in the form of haircuts could be tightened. In the course of the Corona crisis, numerous central banks have also seen themselves forced to make temporary adjustments to their collateral frameworks. These adjustments also have a significant impact on the eligibility of covered bonds. Furthermore, in the course of improving economic conditions, the response of the national banks diverges. The ECB, for example, further extends its temporary relief measures such as the reduction of the valuation discount for the eligible assets until 30 June 2022. In contrast, the Riksbank (as from 03 January 2022) as well as the Norges Bank (since 31 August 2021) adjusted their frameworks to those that applied before the pandemic. In addition, the Bank of Canada abolished its temporary measures such as that "own-name covered bonds" are no longer be eligible as collateral.

Structure of this update

In this update on central bank eligibility of covered bonds we present the basic frameworks regarding eligibility and valuation from the perspective of the ECB and ten other central banks (Bank of England, Swiss National Bank, US Federal Reserve, Sveriges Riksbank, Norges Bank, Danmarks Nationalbank, Bank of Canda, Reserve Bank of Australia, Reserve Bank of New Zealand as well as Narodowy Bank Polski) and discuss relevant (temporary) adjustments made by the respective central banks. The focus here is on the ECB, which is due to the very high relevance of covered bonds there. This has been clearly demonstrated not least by the far-reaching temporary adjustments to the framework in the course of the COVID-19 crisis. Furthermore, retained issues play a very significant role in the euro area.

Euro area – European central bank

The requirements with regard to assets eligible for ECB Collateral Management are documented extensively and in detail. They are generally laid down in Guideline (EU) 2015/510, which has been amended by various other guidelines in recent years. The key requirements can also be found in the eligibility criteria of marketable assets and/or the General Framework, which are supplemented by the Temporary Frameworks. Covered bonds play an important role in the collateral framework of the Eurosystem, not least because of the comparatively low risk associated with covered bonds. Covered bonds can also, under certain conditions, benefit from a privileged position over other bonds in the context of collateral eligibility in the Eurosystem.

Categorisation of covered bonds

According to ECB Guideline (EU) 2015/510 Art. 2 (12), covered bonds are "debt instruments that have a dual recourse: i) directly or indirectly to a credit institution; and ii) to a dynamic cover pool of underlying assets, and for which there is no tranching of risk". Because of reducing the complexity of the Eurosystem's collateral framework, the remaining type of eligible covered bonds comprises "legislative covered bonds" (Art. 2 (49a) as well as "multi cédulas" (Art. 2 (62)) since 1 January 2021. "Non-legislative covered bonds" (i.e. contractual covered bonds), therefore, are phased out from the collateral framework. The amended guideline (Guideline (EU) 2020/1690) implemented the adjustments based on a decision taken by the Governing Council on 13 December 2019. The above-mentioned forms of covered bonds are defined as follows: The "legislative covered bond" (Art. 2 (49a)) means a covered bond, which is either an "EEA legislative covered bond" or a "non-EEA G10 legislative covered bond". On the one hand, the "EEA legislative covered bond" (Art. 2 (24a)) refers to a covered bond which is issued in accordance with the requirements under Article 52 (4) of Directive 2009/65/EC of the European Parliament and of the Council. On the other hand, the "non-EEA G10 legislative covered bond" (Art. 2 (68a)) refers to a covered bond issued in accordance with the requirements of the national covered bond legislative framework of a non-EEA G10 country. In addition, the jumbo covered bond ("Jumbo Pfandbrief", cf. Art. 2 (48)) means an EEA legislative covered bond with an issuing volume of at least EUR 1bn, for which at least three market-makers provide regular bid and ask quotes. "Multi cédulas" (Art. 2 (62)) refers to debt instruments issued by specific Spanish SPVs (Fondo de Titulización de Activos, FTA) enabling a certain number of small-sized single cédulas (Spanish covered bonds) from several originators to be pooled together.

ECB criteria allow for a wide range of international covered bonds

In general, central bank eligibility applies to investment-grade covered bonds denominated in euros from the EEA. The currencies USD, GBP and JPY are added to this specification on the basis of the above-mentioned Temporary Guidelines of the ECB. In addition, as a softening of the EEA restriction, euro-denominated covered bonds from non-EEA G10 jurisdictions (e.g. Canada) may also be lodged as collateral. With regard to the category "Settlement / handling procedures", the place of settlement has to be in the euro area as well as the ECB requires deposit in book form with one of the national central banks or with one of the eligible Security Settlement Systems (SSS). Haircuts are applied in relation to collateral eligibility and the daily determination of the lending value in accordance with the pool procedure.

Changes in collateral eligibility after withdrawal from the EU

Following the United Kingdom's withdrawal from the EU certain assets no longer meet the eligibility criteria of the current Eurosystem collatal framework such as assets denominated in pounds sterling, yen or US dollars whose issuer is established in the UK or unsecured debt instruments issued by credit institutions or investment firms, or by their closely-linked entities, that are established in the UK. But as mentioned above, based on the UK's status as a non-EEA G10 country, euro-denominated covered bonds will continue to be accepted as eligible collateral and in this regard is comparable to Canada.

Haircut categories and covered bonds

Specific haircuts also apply to covered bonds. In particular, a distinction must be made in this respect between the various haircut categories. The different categories of covered bonds (legislative covered bonds, jumbo covered bonds, multi céludas) are also included in this. Furthermore, the relevant wording has been amended by Guideline (EU) 2020/1692 as well as Decision (EU) 2020/506. The specific haircuts are then derived in combination with the underlying coupon (fixed, floating or zero coupon) and the credit quality step (CQS) as defined by the Eurosystem's harmonised rating scale. In general, covered bonds issued in jumbo format are assigned to Haircut Category II, while legislative covered bonds as well as multi céludas are assigned to Haircut Category III.

Divergent credit quality step definition and limitation of the ECAI

When assessing the credit quality of collateral, the Eurosystem uses its own mapping procedure, i.e. the Eurosystem's harmonised rating scale. While it also uses the concept of the credit quality steps (CQS), the classification does not fully correspond to the CQS understanding of the CRR, which is used, for example, to determine risk weights or LCR levels. First of all, there is no difference between the two mapping systems with regard to investment grade ratings. In the non-investment grade, however, the Eurosystem is much more restrictive and only allows a bandwidth of two notches. CQS 4 thus only includes ratings that are one notch below investment grade, i.e. BB+/Ba1/BBH, whereas under the CQS system (CRR) all three rating levels of the BB segment are considered CQS 4 In addition, the Eurosystem also clearly limits the range of recognised rating assessments. Currently only the ratings of four external credit assessment institutions (ECAIs), including DBRS, Fitch, Moody's and S&P, are considered acceptable under the Eurosystem Credit Assessment Framework (ECAF), as only these four agencies meet the relevant Eurosystem requirements. Further information regarding the acceptance criteria for ECAIs as well as the application process for a credit rating agency to become accepted as an ECAI (Acceptance as an ECAI under the ECAF) are laid down in Annex IXc of the Guideline (EU) 2020/1690. The amended guideline, therefore, clarifies the application process and acceptance criteria for ECAIs in the Eurosystem credit assessment framework.

Credit quality steps of long-term ratings based on the Eurosystem's harmonised rating scale

	Investment grade										Non investment grade	
	CQS 1				CQS 2			CQS 3			CQS 4	CQS 5
DBRS	AAA	AAH	AA	AAL	AH	A	AL	BBBH	BBB	BBBL	BBH	BB
Fitch	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB

Source: ECB, NORD/LB Markets Strategy & Floor Research

External ratings: ECB imposes transparency requirements

External ratings are of major importance for covered bonds that are pledged. Rating agencies must, for example, fulfil specific disclosure obligations for the covered bonds they assess (see also Annex IXa and Annex IXb to the ECB Guideline and the corresponding Q&A's) in order to maintain repo eligibility, among other things. In addition, the ECB has adjusted the criteria for own-use covered bonds in such a way that an external rating will also be required for these securities from 1 February 2020 (cf. Guideline (EU) 2019/1032 and press release dated 13 May 2019).

Valuation haircuts for own-use covered bonds

Additional haircuts apply to own-use covered bonds. For example, CQS 1 and 2 issues are subject to a haircut of 8% (CQS 3 securities: 12%). Adjustments to the haircuts are also relevant to own-use soft bullet or CPT covered bonds. During the eligibility process, for example, the extended maturity of the instrument is used rather than the originally scheduled maturity. In the case of a soft bullet structure, for example, the maturity would normally have to be extended by one year, while all CPT structures fall within the ">10 years" maturities range due to the theoretically very long extension period.

Haircut categories overview

Category I	Category II	Category III	Category IV	Category V
Debt instruments issued by central governments	Debt instruments issued by local and regional governments	**Legislative covered bonds other than jumbo covered bonds**	Unsecured debt instruments issued by credit institutions and agencies which are credit institutions that do not meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60)	Asset-backed securities
ECB debt certificates	Debt instruments issued by entities (credit institutions or non-credit institutions) classified by the Eurosystem as agencies and which meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60)	**Multi cédulas**	Unsecured debt instruments issued by financial corporations other than credit institutions	
Debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State	Debt instruments issued by multilateral development banks and international organisations	Debt instruments issued by non- financial corporations, corporations in the government sector and agencies which are non-credit institutions that do not meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60)		
	Jumbo covered bonds			

Source: ECB, NORD/LB Markets Strategy & Floor Research

Valuation haircut levels applied to eligible marketable assets

Credit quality	Residual maturity (years)(*)	Haircut categories												
		Category I			Category II			Category III			Category IV			Category V
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Steps 1 and 2	0-1	0.5%	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	7.5%	7.5%	7.5%	4.0%
	1-3	1.0%	2.0%	0.5%	1.5%	2.5%	1.0%	2.0%	3.0%	1.0%	10.0%	10.5%	7.5%	4.5%
	3-5	1.5%	2.5%	0.5%	2.5%	3.5%	1.0%	3.0%	4.5%	1.0%	13.0%	13.5%	7.5%	5.0%
	5-7	2.0%	3.0%	1.0%	3.5%	4.5%	1.5%	4.5%	6.0%	2.0%	14.5%	15.5%	10.0%	9.0%
	7-10	3.0%	4.0%	1.5%	4.5%	6.5%	2.5%	6.0%	8.0%	3.0%	16.5%	18.0%	13.0%	13.0%
	>10	5.0%	7.0%	2.0%	8.0%	10.5%	3.5%	9.0%	13.0%	4.5%	20.0%	25.5%	14.5%	20.0%

Credit quality	Residual maturity (years)(*)	Haircut categories												
		Category I			Category II			Category III			Category IV			Category V
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Step 3	0-1	6.0%	6.0%	6.0%	7.0%	7.0%	7.0%	8.0%	8.0%	8.0%	13.0%	13.0%	13.0%	Not eligible
	1-3	7.0%	8.0%	6.0%	9.5%	13.5%	7.0%	12.0%	15.0%	8.0%	22.5%	25.0%	13.0%	
	3-5	9.0%	10.0%	6.0%	13.5%	18.5%	7.0%	16.5%	22.0%	8.0%	28.0%	32.5%	13.0%	
	5-7	10.0%	11.5%	7.0%	14.0%	20.0%	9.5%	18.5%	26.0%	12.0%	30.5%	35.0%	22.5%	
	7-10	11.5%	13.0%	9.0%	16.0%	24.5%	13.5%	19.0%	28.0%	16.5%	31.0%	37.05%	28.0%	
	>10	13.0%	16.0%	10.0%	19.0%	29.5%	14.0%	19.5%	30.0%	18.5%	31.5%	38.0%	30.5%	

(*) i.e. [0-1) residual maturity less than 1 year, [1-3) residual maturity equal to or greater than 1 year and less than 3 years, etc.

Note: Valuation haircuts do not include the additional own-use haircut of 8% for covered bonds in credit quality steps 1 and 2 and 12% for covered bonds in credit quality step 3. Valuation haircuts for eligible marketable assets denominated in GBP or USD have to use a haircut of 16% and 26 % of JPY denominated bonds.

Source: ECB, NORD/LB Markets Strategy & Floor Research

Corona crisis: extension of the collateral easing measures until 30 June 2022

In response to the COVID-19 pandemic, the Governing Council of the ECB adopted, on 7 April 2020 as well as on 22 April 2020, temporary adjustments to the collateral framework and its rating requirements for collateral to mitigate potential liquidity tensions in the financial markets of the single currency area. Furthermore, on 2 June 2021 the Guideline (EU) 2021/975 amending Guideline ECB/2014/31 implements the Governing Council decision of 10 December 2020 regarding the extension of the collateral easing measures from 29 September 2021 to 30 June 2022.

Corona crisis: temporary adjustments

After the ECB had already initiated a temporary general reduction of the applicable haircuts by 20% on 7 April 2020, it made further progress on 22 April 2020 and adjusted its rating requirements for collateral, therefore, grandfathering the eligibility of collateral. Accordingly, collateral which has fulfilled all requirements for collateral including an investment grade rating as of 7 April 2020 may continue to be eligible for repo transactions if its rating is at least equivalent to credit quality step 5 (CQS 5; BB/Ba2/BB) of the Eurosystem's Harmonised Rating Scale. This means that covered bonds that were eligible for repo transactions on 7 April 2020 and subsequently slip into the non-investment grade by up to two notches would still be recognised as collateral at the ECB. This also applies to new issues issued under a corresponding programme. In addition, the ECB has increased the maximum share of unsecured debt instruments to 10.0% (previously: 2.5%).

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Corona crisis: implications for covered bonds

In the course of the temporary reduction of applicable haircuts, this implies that the discount for "own use" covered bonds is also reduced by 20%. So, they are subject to an additional temporary haircut of 6.4% applied to “own use” covered bonds in CQS 1 and 2 as well as 9.6% for “own-use” covered bonds to CQS 3. For an "own use" covered bond of collateral category III (legislative covered bond; <EUR 1bn) denominated in euros and bearing a variable interest rate, which is assigned to CQS1 or CQS2, there is a collateral discount of 8% for an assumed term of five years after these adjustments. Without the temporary adjustment, which was announced on 7 April 2020 and is valid temporarily until June 2022, the haircut would be 10%.

Valuation haircut levels applied to eligible marketable assets (temporary adjustments)

Credit quality	Residual maturity (years)(*)	Haircut categories												
		Category I			Category II			Category III			Category IV			Category V
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Steps 1 and 2	0-1	0.4%	0.4%	0.4%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	6.0%	6.0%	6.0%	3.2%
	1-3	0.8%	1.6%	0.4%	1.2%	2.0%	0.8%	1.6%	2.4%	0.8%	8.0%	8.4%	6.0%	3.6%
	3-5	1.2%	2.0%	0.4%	2.0%	2.8%	0.8%	2.4%	3.6%	0.8%	10.4%	10.8%	6.0%	4.0%
	5-7	1.6%	2.4%	0.8%	2.8%	3.6%	1.2%	3.6%	4.8%	1.6%	11.6%	12.4%	8.0%	7.2%
	7-10	2.4%	3.2%	1.2%	3.6%	5.2%	2.0%	4.8%	6.4%	2.4%	13.2%	14.4%	10.4%	10.4%
	>10	4.0%	5.6%	1.6%	6.4%	8.4%	2.8%	7.2%	10.4%	3.6%	16.0%	20.4%	11.6%	16.0%
Credit quality	Residual maturity (years)(*)	Haircut categories												
		Category I			Category II			Category III			Category IV			Category V
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Step 3	0-1	4.8%	4.8%	4.8%	5.6%	5.6%	5.6%	6.4%	6.4%	6.4%	10.4%	10.4%	10.4%	Not eligible
	1-3	5.6%	6.4%	4.8%	7.6%	10.8%	5.6%	9.6%	12.0%	6.4%	18.0%	20.0%	10.4%	
	3-5	7.2%	8.0%	4.8%	10.8%	14.8%	5.6%	13.2%	17.6%	6.4%	22.4%	26.0%	10.4%	
	5-7	8.0%	9.2%	5.6%	11.2%	16.0%	7.6%	14.8%	20.8%	9.6%	24.4%	28.0%	18.0%	
	7-10	9.2%	10.4%	7.2%	12.8%	19.6%	10.8%	15.2%	22.4%	13.2%	24.8%	29.6%	22.4%	
	>10	10.4%	12.8%	8.0%	15.2%	23.6%	11.2%	15.6%	24.0%	14.8%	25.2%	30.4%	24.4%	

(*) i.e. [0-1) residual maturity less than 1 year, [1-3) residual maturity equal to or greater than 1 year and less than 3 years, etc.

Note: Valuation haircuts do not include the additional own-use haircut of 6.4% for covered bonds in credit quality steps 1 and 2 and 9.6% for covered bonds in credit quality step 3. Valuation haircuts for eligible marketable assets denominated in GBP or USD have to use a haircut of 16% and 26 % of JPY denominated bonds.

Source: ECB, NORD/LB Markets Strategy & Floor Research

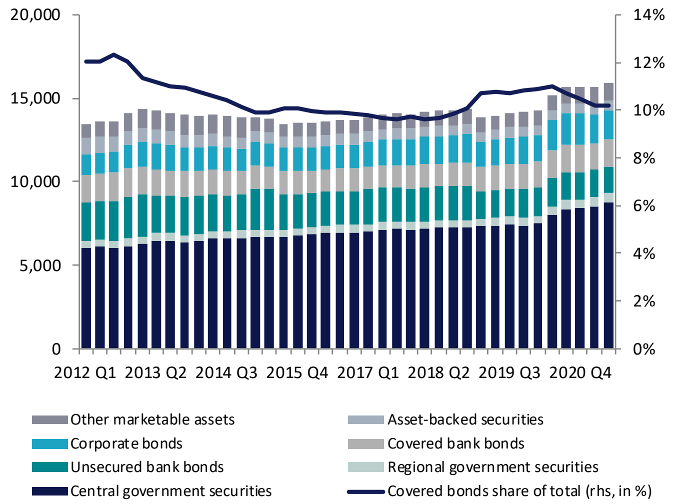
ECB database for eligible assets

The ECB provides information relating to the list of eligible collateral on its website. It is possible to access the entire database as well as the changes compared to the previous working day in the download section. It is also possible to query whether a security is approved as collateral. As at 14 October 2021, the database contained 25,427 securities. Of these, 3,737 bonds were classified as covered bonds (3,287 EEA legislative covered bonds, 312 jumbo Pfandbrief-style covered bonds, 129 Non-EEA G10 legislative covered bonds and 9 multi cédulas). The Non-EEA G10 legislative covered bonds are from issuers with residence in UK (70 bonds) as well as Canada (59 bonds). It should be noted, however, that this list is merely a list of the central bank eligibility registered at the ECB. This means that bonds that are not listed here may also be eligible. More importantly, the listing does not necessarily imply use as collateral. The ECB publishes aggregated data that provides information on both eligible assets and use of collateral. According to these official statistics, covered bonds accounted for 10.2% (EUR 1,624bn) of total eligible assets (EUR 15,955bn) in the second quarter of 2021.

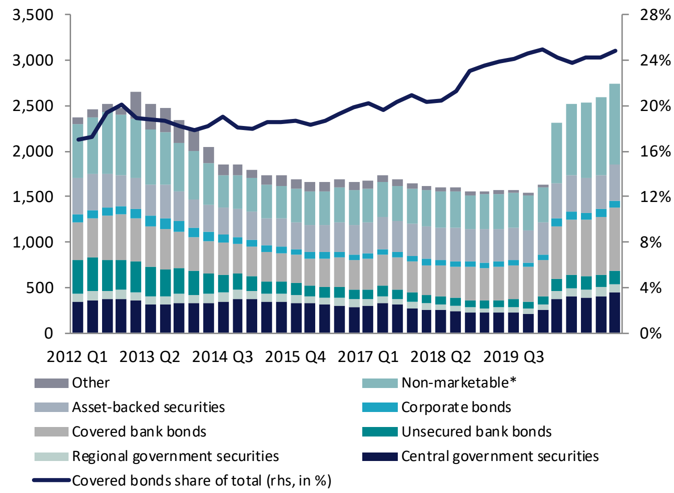
EUR benchmarks not generally classifiable as eligible assets

With regard to use of collateral (EUR 2,796bn), covered bonds account for 25% (EUR 694bn). In 2008, eligible assets (EUR 1,248bn) and use of collateral (EUR 174bn) each accounted for an 11% share, which rose to 12% (EUR 1,537bn) and 16% (EUR 288bn), respectively, in 2011. Both the covered bonds used as collateral as well the total collateral used did rise remarkably in the last five quarters. Covered bonds amounted to EUR 408bn in Q1/2020 and, hence, did rise by 70%. The total volume of collateral used still stood at EUR 1,636 billion in Q1/2020 (+71%). The data also reveals that, applying the above criteria, ECB eligibility cannot necessarily be assumed even for bonds issued as EUR benchmarks and included in iBoxx EUR Covered. Due to the restriction to the EEA (Guideline (EU) 2015/510) and the additional eligibility of non-EEA G10 issues (Temporary Framework), EUR benchmarks of Canadian issuers, for example, can generally be used as collateral. In contrast, the EUR benchmark of Korean KHFC cannot be classified as ECB-eligible. The same applies, for example, to bonds from Australia, New Zealand and Singapore as well as the RMBS-based and non-legislative benchmarks from Japan.

ECB: composition of eligible assets (EUR bn)



ECB: composition of use of collateral (EUR bn)



Source: ECB, NORD/LB Markets Strategy & Floor Research

UK – Bank of England

The Sterling Monetary Framework of the Bank of England (BoE) provides for a total of three different categories of eligible assets and distinguishes between Level A, Level B and Level C collateral (see BoE Summary of Collateral Eligible for the Bank's Operations). The currencies accepted are generally GBP, EUR, USD, AUD, CAD, CHF and SEK. While Level A collateral (which include securities denominated in pounds sterling, euros, US dollars and Canadian dollars issued by the governments and central banks of the United Kingdom, Canada, France, Germany, the Netherlands and the USA) can be used for all listed operations or facilities, Level B or Level C collateral (which also includes covered bonds) is eligible to Liquidity Facility in Euros (Life), US Dollar Repo, Indexed Long-Term OMOs, the Discount Window Facility, Contingent Term Repo Facility, TFSME Lending Facility, Funding for Lending Scheme and the Term Funding Scheme.

Bank of England: eligible collateral for operations and facilities

Collateral	Level A	Level B	Level C
Intraday Liquidity	Y	N	N
Operational Standing Facilities	Y	N	N
Liquidity Facility in Euros (LiFE)[1]	Y	Y	Y
US Dollar Repo[2]	Y	Y	Y
Indexed Long-Term Repo OMOs	Y	Y	Y
Discount Window Facility	Y	Y	Y
Contingent Term Repo Facility	Y	Y	Y
TFSME Lending Facility[3]	Y	Y	Y
Funding for Lending Scheme	Y	Y	Y
Term Funding Scheme	Y	Y	Y

Source: Bank of England, NORD/LB Markets Strategy & Floor Research; [1]LiFE operations will be suspended effective from 1 October 2021; [2]84-day U.S. dollar repo operation discontinued since 1 July 2021; [3]Drawdown Period extended until 31 October 2021 and Reference Period extended until 30 June 2021

Covered bonds as Level B collateral: limited to UK, Germany and France

Regulated covered bonds from the UK, Germany and France are classified as Level B collateral if the underlying assets are debt claims on the public sector, social housing loans or residential mortgage loans and these are geographically attributable to the UK or the EEA. Furthermore, covered bonds are only classified as Level B collateral if they are regulated UK covered bonds or securities from Germany or France with an AAA-equivalent rating and an issue volume of more than EUR 1bn or GBP 1bn. With regard to the external ratings, the Bank of England highlights that the ratings are to be understood as an indicator. Having said that, the central bank reserves the right to carry out its own risk assessment. This also implies that an external AAA or Aaa rating is not always considered sufficient for the Bank of England to assume that the instrument has the highest credit quality.

Level C collateral: self-issued covered bonds also possible

With regard to classification as Level C collateral, the Bank of England specifies much broader requirements in relation to covered bonds. For example, a minimum credit quality at the rating level of A3 or A- applies to all Level C collateral described here. As a result, those covered bonds are eligible as Level C collateral that meet all the requirements for Level B collateral with the exception of the "highest credit quality" requirement. In addition, the Bank of England provides that covered bonds from the UK, the USA and the EEA, whose cover pools include SME loans or commercial mortgage loans, are eligible as Level C collateral. Covered bonds whose cover relates to loans secured by specific Export Credit Agency (ECA) collateral and to which the above-mentioned geographical classification applies are also generally eligible as Level C collateral. The Bank of England is required to assess them on a case-by-case basis. Furthermore, in the context of the distinction between Level B and Level C collateral, it should be noted that assets originating from the participant (i.e. own issues) are not accepted as Level B collateral, but may be eligible as Level C collateral. Further differences in the treatment of covered bonds depending on the type of collateral must also be taken into account, particularly in relation to collateral haircuts.

LIBOR linked collateral

The Bank of England's revised its policy regarding LIBOR linked collateral. Therefore, from 1 April 2021, the Bank of England increases haircuts progressively on LIBOR linked collateral, starting with a haircut add-on of 10%. The haircut add-on have risen to 40% from 1 September 2021 and will be 100% from 31 December 2021 (haircuts will be capped at 100%). The Bank of England reserves the right to waive the LIBOR linked haircut add-ons. This is the case when the Bank of England is satisfied that the collateral benefits from a robust fallback or a future rate switch mechanism and complies with certain requirements. In addition, from 1 January 2022 all LIBOR linked collateral issued on or after that date will be ineligible for use in the Sterling Monetary Framework, except LIBOR linked collateral that has been provided prior to 1 January and which benefits from a future rate switch mechanism as well as continuous to meet all of the conditions set out in the market notice.

Sterling Monetary Framework: haircuts for covered bonds

	Floating	Fixed						
		<1y	1-3y	3-5y	5-10y	10-20y	20-30y	>30y
Level B	12.0%	12.0%	14.0%	15.0%	17.0%	19.0%	22.0%	24.0%
Level C: SME / Commercial	25.0%	25.0%	27.0%	28.0%	30.0%	32.0%	35.0%	37.0%
Level C: ECA guarantee loans	3.0%	3.0%	5.0%	6.0%	8.0%	10.0%	13.0%	15.0%

Source: Bank of England, NORD/LB Markets Strategy & Floor Research; A haircut add-on of 5% is applied to own-name eligible covered bonds where appropriate; A haircut of 5% is added to eligible collateral for which no market price is observable

Specific transparency requirements for covered bonds

As early as 2010 the Bank of England had formulated specific transparency requirements for ABS and covered bonds. Accordingly, additional requirements must be met in order to maintain central bank eligibility. For example, quarterly information at loan level and within one month after the relevant interest payment date must be made publicly available. The programme descriptions and regular investor reports must also be published (see BoE Transparency Requirements for further details).

Switzerland – Swiss National Bank

Open market operations by the Swiss National Bank (SNB) or the use of available facilities usually take place using repo operations. In addition, the SNB has introduced a temporary standing facility called "COVID-19 refinancing facility" (CRF) in order to cushion the impact of the corona virus back on 25 March 2020. The SNB maintains a regularly updated directory for this purpose, containing the securities classified as eligible. As a general rule, the instruments provided as collateral must be those whose repayment is not subject to any conditions and whose principal amount is fixed. In addition to the Swiss franc, EUR, USD, GBP, DKK, SEK and NOK can also be used as issue currencies. With regard to the group of eligible issuers, bonds issued by financial institutions are generally not eligible, although covered bonds are explicitly excluded from this stipulation. However, there are further exemptions in this respect. Covered bonds are not eligible, for example, if they were issued by a domestic institution or a foreign subsidiary of such an institution. Nevertheless, this does not apply to covered bonds issued by the Pfandbriefbank schweizerischer Hypothekarinstitute AG (Pfandbrief Bank of Swiss Mortgage Institutions) and the Pfandbriefzentrale der schweizerischen Kantonalbanken AG (Pfandbrief Central Office of the Swiss cantonal banks).

SNB: soft bullet covered bonds and Brexit
Since June 2019, covered bonds with extendable maturities, in particular soft-bullet structure, are eligible collateral for SNB repos up to the original maturity date. The currency in which the collateral is denominated is also relevant to the domicile of the issuer. In the case of foreign currency bonds, the debtor must either be domiciled in Switzerland, in a Member State of the European Union (EU), in the European Economic Area (EEA) or in the United Kingdom (UK). The SNB has amended its guidelines back in February 2020, therefore, it prevents securities domiciled in the UK from losing their eligibility as collateral due to the Brexit.

Mandatory credit rating by S&P, Moody's or Fitch
While some central banks formulate the question of the required creditworthiness of collateral comparatively vaguely, the SNB guidelines are very specific. For example, securities deposited as collateral must have at least one rating from the three major rating agencies (Standard & Poor’s, Moody’s and Fitch). The rating must be at least AA-/Aa3 to be eligible as collateral; consequently it must be assigned to Credit Quality Step 1, analogously to the CRR. If more than one rating is available, the assessment will be based on the second-best rating. In the case of bonds issued by the two above-mentioned Pfandbrief institutions (Swiss Pfandbrief institutions), however, the issuer's rating may be used in the absence of a rating. The utilisation of own-use bonds as collateral is not possible. The SNB also defines own-use bonds as securities issued by an institution in which the institution providing the collateral has a direct or indirect holding of at least 20%.

Required minimum volumes
As was the case with some of the above requirements, this 20% rule does not apply to the two Swiss Pfandbrief institutions. Potential securities must also meet certain minimum levels of issue volume. The crucial factor in this respect is the volume issued, which must be at least CHF 100m for CHF bonds and the equivalent of CHF 1,000m for bonds denominated in foreign currency. A further technical requirement is that collateral can be delivered via SIS (SIX SIS AG) and is held by a custodian in Switzerland, the EU, the EEA or the UK. In addition, the relevant collateral must usually be traded on an approved stock exchange or a representative market in Switzerland, the EU, the EEA or the UK, and price information must be available at regular intervals. It is essential for collateral denominated in foreign currencies to be quoted on the SIX Swiss Exchange.

Basket formation for the classification of eligible collateral
All eligible bonds are combined by the SNB in the "SNB GC Basket" and meet the requirements for High Quality Liquid Assets (HQLA). Furthermore, the securities are assigned to additional baskets based on their characteristics. On the one hand, the L1 Basket includes securities denominated in Swiss franc and foreign currency which is issued by, as a rule, central banks, public sector entities and multilateral development banks. On the other hand, the L2A Basket contains all other securities including covered bonds. In addition, the baskets "L1 CHF" and "L2A CHF" exist for collateral denominated in CHF. However, the SNB's assessment of the level assignment does not take into account any institution-specific aspects. As a consequence, all covered bonds are assigned to the "L2A" or "L2A CHF" basket.

USA – Federal Reserve Bank

Only jumbo covered bonds (Pfandbriefe) from Germany with a top rating are considered to be central bank-eligible covered bonds by the US Federal Reserve. In addition to the USD, the currencies JPY, EUR, AUD, CAD, GBP, DKK, SEK and CHF are admissible as issue currencies in accordance with the Federal Reserve Collateral Guidelines. The distinction between USD and non-USD issues results in a different treatment with regard to the eligible portion of the collateral delivered. For example, lower haircuts on the market value are applicable to USD covered bonds (Pfandbriefe).

Federal Reserve Discount Window: eligibility of covered bonds

Securities	Margins for Securities (% of market value) – Duration Buckets				
	0-1y	>1-3y	>3-5y	>5-10y	>10y
German Jumbo Pfandbriefe AAA/Aaa (USD)	98.0%	98.0%	97.0%	96.0%	94.0%
German Jumbo Pfandbriefe AAA/Aaa (Non-USD)	94.0%	94.0%	94.0%	93.0%	91.0%

Source: US Federal Reserve, NORD/LB Markets Strategy & Floor Research

Sweden – Sveriges Riksbank

Securities must meet a number of criteria as eligible collateral in operations with the Sveriges Riksbank. Securities issued by credit institutions are only eligible if they are state-guaranteed instruments or covered bonds. The definition of covered bonds is based on the information in Article 52 (4) UCITS. As the scope of the Directive is the EEA, the central bank also imposes the restriction that only issues by a credit institution established in the EEA are considered covered collateral. With regard to creditworthiness, only securities with a rating of at least AA-/Aa3 (i.e. equivalent to classification as Credit Quality Step 1 are eligible as collateral. This assessment must also have been conducted by one of the three agencies the Riksbank acknowledges: Moody's, Fitch or S&P. Moreover, if the security has more than one rating, at least two assessments must meet the required standards.

Required volume, country of origin and issue currency

In addition to SEK collateral, the Riksbank also accepts instruments denominated in an approved currency (USD, GBP, DKK, EUR, JPY and NOK). Collateral must have an outstanding volume of at least SEK 100m or its equivalent in foreign currency. This requirement does not apply to securities issued by the Riksbank. In addition to the aforementioned requirements, the Riksbank also restricts the eligible jurisdictions. In addition to the G10 countries, the three Scandinavian countries Norway, Sweden and Denmark can be found on the relevant list. Furthermore, securities of issuers from Ireland, Austria and Luxembourg are generally eligible, as are those from the Southern European countries of Portugal, Spain, Italy and Greece. The two APAC states, Australia and New Zealand, round off the total of 22 approved jurisdictions. This list of countries is also the basis for the requirement that collateral must be admitted to trading on at least one regulated market in these 22 jurisdictions.

Sweden: haircuts to be applied to covered bonds

Haircut for price risk (Liquidity class 2)				Haircut for foreign exchange risk	
Remaining time to maturity	**Fixed rate**	**Variable rate**	**Zero coupon**	**Currency**	**Haircut**
0-3y	3.0%	3.0%	5.0%	USD	6.0%
3-5y	5.0%	4.0%	10.0%	GBP	5.0%
5-7y	7.0%	6.0%	15.0%	DKK	4.0%
7-10y	10.0%	10.0%	20.0%	EUR	4.0%
>10y	15.0%	14.0%	25.0%	JPY	9.0%
				NOK	4.0%

Source: Sveriges Riksbank, NORD/LB Markets Strategy & Floor Research

Riksbank's haircuts system

As is usual with other central banks, Sveriges Riksbank also has a haircut system for adjusting or correcting the market values of collateral. To do so, the collateral is first grouped into one of the three liquidity classes, with covered bonds being assigned to Category 2. Based on the classification made, valuation haircuts are initially applied to the value of an item of collateral, depending on the residual maturity and the selected form of coupon payment. Apart from covered bonds denominated in SEK, fixed and floating-rate covered bonds from the "0-3y" bucket of maturities, denominated in Danish krone, Norwegian krone or euro, consequently have the lowest haircuts. A haircut of a further five percentage points is made if the price used is determined on a theoretical basis. In general, and if an outdated quotation is in use, the central bank is also entitled to specify additional haircuts, calculated on a case-by-case basis. EUR benchmarks with a fixed coupon, therefore, generally move within a haircut range of 7% to 19%.

Dealing with potential concentration risks: Limit rules for covered bonds

In order to reduce the concentration risk associated with operations involving the central bank, the maximum volume of collateral provided is used as a classification, in addition to the classification into liquidity classes. While, for example, Category 1 instruments can be provided as collateral in unlimited amounts, the volume of covered bonds (Category B instrument) is limited to 60% of the collateral provided. This limit requires that the collateral does not comprise instruments placed by the issuer itself or a related institution (a holding of 20% or more is generally applicable). Collateral of this type is limited to 50% of the collateral provided.

Corona crisis: Temporary adjustments until 02 January 2022

In response to the COVID-19 pandemic, on 16 March 2020 as well as 19 March 2020, the Executive Board of the Riksbank adopted the scope for using covered bonds as collateral for credit at the Riksbank. The relief measures meant that the limit rules applying covered bonds were abolished. Thus, a covered bond portion of 100% of the total collateral volume was permitted (before temporary adjustments: 60%), the previous limit of 50% on the value of collateral in the "own use" context has also been raised accordingly to 100% as well as accepting self-issued covered bonds as collateral for credit. As from 03 January 2022, the amended limit rules will revert to those that applied before the pandemic as mentioned above.

Norway – Norges Bank

The guidelines issued by Norges Bank require the securities to be held with VPS (Norwegian Central Securities Depository), Euroclear or Clearstream. In addition to the home currency NOK, eligible currencies also include SEK, DKK, EUR, USD, GBP, JPY, AUD, NZD, CAD and CHF. With regard to the country of issue, the EEA countries are approved; for non-EEA countries, it is necessary to ensure that Norges Bank is not disadvantaged in any way as a result. An up-to-date list of approved countries is available on the Norges Bank website. A rating by S&P, Moody's or Fitch is also required, except for in NOK denominated covered bonds issued by Norwegian entities. For securities issued by Norwegian entities, the issuer rating is sufficient if an issue rating is not available. Minimum ratings apply to bonds, depending on the issuer. Accordingly, Norwegian issuers must have a minimum rating of BBB-/Baa3, while foreign issuers must have at least an A/A2 rating. If more than one rating is available, the second-best rating always applies.

No bank debt instruments, except ABS and covered bonds

NOK-denominated securities issued by private institutions must have a minimum volume of NOK 300m, while for all other currencies, a minimum outstanding volume of EUR 100m or equivalent applies. For securities other than Norwegian government securities, a borrower may not pledge more than 20% of the issue's volume outstanding per ISIN. Norges Bank does not accept any securities issued by banks or other financial institutions as collateral as well as by a company in which banks or other financial institutions in the same group directly or indirectly own more than 1/3. ABS and covered bonds are the only exceptions in this respect, while for ABS only the upper tranche will be eligible as collateral. Debt securities issued by a holding company that primarily owns insurance companies may be accepted as collateral as well. When determining the haircut rates, covered bonds with a rating of AA-/Aa3 or better are assigned to Category 2 (see table below). Covered bonds with ratings from A/A2 to A+/A1 are assigned to Category 3, while those with ratings of A-/A3 or lower are assigned to Category 4, whereby it should also be noted that category 4 covered bonds must be issued by Norwegian issuers. If no sufficient price information on securities is available (registered in a foreign securities depository), the value is based on its nominal value, less an additional haircut depending on the bond's rating. A 15% haircut is applied to a rating of AAA/Aaa, 20% for a rating ranging from AA+ to AA- (S&P/Fitch) or Aa1 to Aa3 (Moody's). Furthermore, based on a rating of A+ to A as well as A1 to A2, an additional haircut of 30% will be applied.

Norges Bank: haircuts for covered bonds[1]

Maturity in years	Category 1		Category 2		Category 3		Category 4	
	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating
0-1y	1.0%	1.0%	3.0%	3.0%	4.0%	4.0%	8.0%	8.0%
1-3y	3.0%	1.0%	5.0%	4.0%	6.0%	5.0%	11.0%	10.0%
3-7y	5.0%	1.0%	7.0%	5.0%	10.0%	7.0%	17.0%	14.0%
>7y	7.0%	1.0%	10.0%	6.0%	13.0%	9.0%	22.0%	17.0%

Source: Norges Bank, NORD/LB Markets Strategy & Floor Research; [1] Additional haircuts apply to non-NOK issues (additional haircut: 6%) or to covered bonds issued by the entity itself or affiliated institutions (5%).

Corona crisis prompts Norges Bank to adjust limits

From 31 August 2021, the Norges Bank have reversed its temporary measures from its guidelines published on 18 March 2020. Therefore, the minimum size for bonds denominated in Norwegian kroner is now NOK 300m (previously: NOK 100m). Issues in foreign currencies must have an equivalent outstanding minimum volume of NOK 100m (previously: NOK 50m). The 20% ISIN limit for non-government bonds have also been reintroduced (previously: ISIN limit was abolished and there was temporarily no upper limit with regard to the volume per issuer submitted by a business partner). The only exception marks that in NOK denominated securities with a guarantee from a Norwegian local government authority will continue to be exempt from the credit rating requirement.

Denmark – Danmarks Nationalbank

In operations with the Danish central bank, the three forms of Danish covered bonds, i.e. Realkreditobligationer (ROs), Særligt Dækkede Obligationer (SDOs) and Særligt Dækkede Realkreditobligationer (SDROs), which have been issued by an institution subject to the "Danish Financial Business Act", are accepted as eligible collateral. This requires that the collateral is registered with VP Securities, denominated in DKK or EUR and traded on the Copenhagen stock exchange (NASDAQ OMX Copenhagen). Own use issues, on the other hand, are not eligible in Denmark as collateral for operations with the central bank. In principle, however, Danmarks Nationalbank may, at its discretion, either classify securities as eligible collateral or reject them.

Haircuts on fixed or floating-rate covered bonds

	Remaining maturity					
	0-1 year	**1-3 years**	**3-5 years**	**5-7 years**	**7-10 years**	**>10 years**
Category 2	1.0%	1.5%	2.5%	3.5%	4.5%	8.0%
Category 3	1.5%	2.5%	4.0%	5.0%	6.0%	9.0%

Source: Danmarks Nationalbank, NORD/LB Markets Strategy & Floor Research

Additional haircuts on EUR bonds

As is usual at other central banks, Denmark also applies haircuts to pledged collateral. To do so, firstly, the previous day's price of an item of collateral from the Copenhagen stock exchange is used. If the collateral was not traded on the previous day, a theoretical price is calculated by the central bank. Danmarks Nationalbank makes a distinction between four categories of haircut. Covered bonds in the form of the Danish variants RO, SDO and SDRO are eligible as Category 2 or 3 assets, depending on their characteristics. To be classified in Category 2, the bond must have an outstanding volume of at least EUR 1.0bn or its equivalent in DKK. In addition, prices must be provided through a pricing system approved by the central bank and must have at least three price quotes. If a covered bond does not meet these criteria, it falls into Category 3. If the price used for the valuation is a theoretical price, an additional haircut of five percentage points is applied, except for securities issued by the Kingdom of Denmark. EUR-denominated covered bonds are also subject to an additional haircut, although only a further three percentage points are applied in this case. EUR benchmarks therefore generally move within a haircut range of 4.0% to 12.0%.

Canada – Bank of Canada

The Bank of Canada provides access to liquidity for credit institutions through the Standing Liquidity Facility (SLF), among other sources. In addition to a number of securities, the central bank also lists covered bonds under the eligible assets. These bonds must have been issued from a programme that is approved under the Canadian Covered Bonds Registry and in accordance with the national legislation. In addition, the bonds must also be of sufficiently high quality. Ratings from the agencies DBRS, Fitch, Moody's and S&P were used for this purpose up to July 2018. The minimum ratings were A (low), A-, A3 or A-. The second-highest rating of at least two ratings is then used as a basis. In order to reduce the dependence on the quality assessment by rating agencies, these requirements were revised with effect from 23 July 2018. Since then, the quality of a covered bond has been regarded as sufficiently high if it is largely equal to an AAA-equivalent assessment. The Bank of Canada has in this way softened its quality standards somewhat from a technical point of view, while at the same time increasing the required quality significantly compared with the previous clear rating requirements.

Margin requirements of the Bank of Canada for covered bonds

	Remaining maturity							
	up to 3 months	**3-12 months**	**1-3 years**	**3-5 years**	**5-10 years**	**10-20 years**	**20-35 years**	**>35 years**
Covered bonds[1]	2.25%	2.5%	4.0%	5.5%	6.0%	9.0%	15.0%	15.5%

Source: Bank of Canada, NORD/LB Markets Strategy & Floor Research

[1] an additional 4% will be added to the margin requirements for USD-denominated securities to account for foreign exchange risk

Numerous other requirements for fundamentally eligible assets

Based on the fundamental eligibility of covered bonds as collateral, they, like all other eligible asset classes, must meet further criteria in order to be accepted as collateral by the Bank of Canada for the relevant operations. For example, covered bonds must be denominated in Canadian dollars and have an outstanding volume of at least CAD 1.0m. In addition, as of 26 July 2021 certain USD-denominated securities have been added to the list of eligible collateral such as covered bonds (cf. Market Notice from 20 July 2021). This is a supporting measure for the introduction of the Lynx payment system. In contrast, securities issued by the collateralising party or a related party (own use) are explicitly excluded as eligible collateral. With concentration risks in mind, the Canadian central bank stipulates that no more than 5% of the volume of collateral provided may be concentrated in a single issuer. In addition, the proportion of securities from municipal governments and the private sector, which includes covered bonds, may not exceed 20% of the total collateral provided by a counterparty. As is customary with many central banks, the Bank of Canada also applies haircuts to pledged collateral. The haircuts applicable to covered bonds, as for all other collateral, are determined on the basis of the residual maturity and are between 2.25% and 15.5% for covered bonds. Furthermore, an additional haircut of 4% will be applied for USD-denominated securities. In principle, however, the central bank reserves the right, irrespective of the defined criteria, to accept or reject securities as collateral and to make haircut adjustments.

Corona crisis: Canada's central bankers allow "own use" covered bonds for the first time

The potential risks to the functioning of the Canadian banking market associated with the Corona crisis have prompted the decision-makers at the Bank of Canada to allow the "own use" of covered bonds from Canadian issuers for a temporary period (see inter alia the communication of 18 March 2020). In fact, this adjustment has led to an increased placement of retained covered bond issues by Canadian covered bond issuers. Effective on 21 October 2020, the Bank of Canada decided that “own-name covered bonds” are no longer be eligible. The – also temporary – relaxation in view of the predetermined issuance limit for covered bonds set by the Canadian OFSI for the total assets of the respective credit institution has also provided the respective issuers with additional scope for the placement of retained covered bond issues (cf. OSFI Letter of 27 March 2020). On 6 April 2021, the OSFI announced the unwinding of the regulatory adjustment. Therefore, the bank’s issuance of covered bonds is limited to 5.5% of the bank’s total assets.

Reserve Bank of Australia: haircuts for covered bonds

Eligible Securities Purchased under Repo	Average Credit Rating	Margins by residual maturity per cent			
		0-1y	**1-5y**	**5-10y**	**>10y**
ADI-issued securities (including covered bonds)	AAA	6.0%	7.0%	8.0%	10.0%
	AA-	10.0%	12.0%	14.0%	16.0%
	A-	12.0%	14.0%	16.0%	18.0%
	BBB-	18.0%	22.0%	26.0%	30.0%
	Public credit rating	24.0%	n/a	n/a	n/a
Other securities[1]	A-1 or AAA	6.0%	7.0%	8.0%	10.0%

Source: Reserve Bank of Australia, NORD/LB Markets Strategy & Floor Research; [1] (including non-ADI-issued covered bonds)

Australia –Reserve Bank of Australia

The eligible securities accepted by the Reserve Bank of Australia (RBA) are limited to AUD issues traded through Austraclear. Covered bonds are classified in this case as bonds issued by financial institutions authorised to accept deposits (Authorised Deposit-taking Institutions, ADI). For this category of ADI-issued securities, which also includes senior unsubordinated bonds, an average minimum rating (issuer or issue ratings for covered bonds) of BBB-/Baa3 applies to securities with a maturity exceeding one year. At least two recognised rating agencies (S&P, Moody's or Fitch) must provide ratings. However, only the rating of one recognised agency is required for residual maturities of one year or less. Unless expressly agreed otherwise, securities will not be accepted from counterparties where, in the opinion of the Australian central bank, there is a material link between the credit quality of the pledging institution and the pledged security. As a result, "own use" covered bonds are not eligible for repo activities with the Australian central bank. In principle, the RBA also provides that covered bonds issued by non-ADI may be used. The additional collateral required under repurchase operations is expressed as a percentage of the purchase price applied by the Reserve Bank. At the Reserve Bank of Australia, too, these margins are also dependent on the type of security and the ratings, and are in principle subject to change. The margins applicable to covered bonds are shown in the table above.

New Zealand – Reserve Bank of New Zealand

The Reserve Bank of New Zealand (RBNZ) also includes covered bonds as one of the securities eligible for repo operations. The central bank maintains a comparatively detailed list of the eligibility criteria. For example, covered bonds are only eligible if their cover assets are senior, are used for housing purposes and are geographically attributable to New Zealand; they must also be denominated in NZD and be traded through NZClear. The cover assets (maximum LTV ratio: 80% and no non-performing assets) must also have been transferred to an SPV. With regard to risk assessment, at least two approved rating agencies must have awarded AAA/Aaa ratings. If there are more than two ratings, none of them may be lower than AA+/Aa1.

Covered bonds only eligible on a "two name" basis

The Reserve Bank of New Zealand also does not provide for any own use ('one name' basis). This means that it is not possible for issuers to use covered bonds issued by themselves as collateral. The New Zealand central bank applies comparatively low collateral haircuts to the accepted covered bonds. A haircut of 5% is applied to maturities of less than three years, while from three years onwards, a haircut of 8% is applied. On 04 June 2020, a NZD-denominated bond issued by the Bank of New Zealand (BZLNZ 4.261 02/03/23, NZD 300m) was brought in as an eligible asset.

Poland – Narodowy Bank Polski

The Polish central bank, Narodowy Bank Polski (NBP), lists mortgage-backed covered bonds in the mortgage bonds category. As criteria for the use of covered bonds in the context of repo operations, the central bank firstly specifies that these mortgage bonds must be admitted to public trading or trading on the regulated market, WSE and Bondspot. In addition, the nominal value of the issue (i.e. each ISIN code) may not be less than PLN 10m. The Polish central bank does not set any specific thresholds for the rating, but it does limit the range of covered bonds eligible for repurchase to issues denominated in Polish currency. The haircuts for the mortgage bonds, which are listed in the central bank's official documentation on haircuts as "other", are based on the nominal value.

Narodowy Bank Polski: haircuts for mortgage bonds

	Zero coupon bonds		Coupon bonds			
	<1y	**>1y**	**<3y**	**3-7y**	**7-15y**	**>15y**
Mortgage bonds	18.0%	34.5%	13.5%	13.5%	25.5%	33.0%

Source: Narodowy Bank Polski, NORD/LB Markets Strategy & Floor Research

NORD/LB

Covered bonds
Table: central bank eligibility of covered bonds [1]

Author: Dr Frederik Kunze

		Eurozone	United Kingdom		Switzerland	United States
		European Central Bank	Bank of England		Swiss National Bank	Federal Reserve Bank
Eligibility criteria		link	link		link	link
Eligible securities		link	link		link	
Category		Category II & III	Level B	Level C	L2A, L2A CHF	German Jumbo Pfandbrief
Rating requirements		Min. BBB-/Baa3[2]	AAA/Aaa equivalent	A-/A3 equivalent	Min. AA-/Aa3	AAA/Aaa
Rating agencies		ECAI (accepted for ECAF)	-	-	Fitch, Moody's, S&P	-
Rating treatment		First best	-	-	Second best	-
Min. volume (home currency)		Category II: EUR 1,000m Category III: -	> GBP 1,000m	-	CHF 100m	German Jumbo Pfandbrief
Min. volume equivalent (foreign currency)			> EUR 1,000m	-	CHF 1,000m	
Own-use		✓	✗	✓	✗	-
Haircuts based on	TtM	✓	✓	✓	✗	✓
	Coupon	✓	✓	✓	✗	✓
	Currency	✓	✓	✓	✗	✓
	...	Own-use	-	-	-	-
Currencies	EUR	✓	✓	✓	✓	✓
	USD	✓	✓	✓	✓	✓
	GBP	✓	✓	✓	✓	✓
	JPY	✓	✗	✗	✗	✓
	CHF	✗	✓	✓	✓	✓
	SEK	✗	✓	✓	✓	✓
	NOK	✗	✗	✗	✓	✗
	DKK	✗	✗	✗	✓	✓
	CAD	✗	✓	✓	✗	✓
	AUD	✗	✓	✓	✗	✓
	NZD	✗	✗	✗	✗	✗
	PLN	✗	✗	✗	✗	✗
Country of issuance	EU	✓	-	✓	✓(non CHF-Bonds)	-
	EEA	✓	-	✓	✓(non CHF-Bonds)	-
	G10	✓	-	✗	✗	-
	others	-	UK, DE, FR	US	UK (non CHF-Bonds), CH; CHF bonds: no limitations	DE

[1]The purpose of the table is to compare the requirements for eligible collateral. As a result, it does special/individual cases. Consequently, a case-by-case assessment is essential to determine the central bank eligibility of securities, which should not be based solely on this table.

[2] temporary adjusted

Source: national central banks, NORD/LB Markets Strategy & Floor Research

Covered bonds
Table: central bank eligibility of covered bonds (continued)

		Sweden	Norway	Denmark
		Sveriges Riksbank	Norges Bank	Danmarks Nationalbank
Eligibility criteria		link	link	link
Eligible securities		link	link	link
Category		Category 2	Category 2,3 & 4	Category 2 & 3
Rating requirements		Min. AA-/Aa3	NO: Min. BBB-/Baa3 non NO: Min. A/A2	-
Rating agencies		Fitch, Moody's, S&P	Fitch, Moody's, S&P (non-NOK NO bonds)	-
Rating treatment		≥ two ratings: at least two min. AA-/Aa3	Second best	-
Min. volume (home currency)		SEK 100m	NOK 300m	Category 2: EUR 1,000m (or equivalent in DKK) Category 3: -
Min. volume equivalent (foreign currency)		SEK 100m	EUR 100m	
Own-use		✓	✓	✗
Haircuts based on	TtM	✓	✓	✓
	Coupon	✓	✓	✗
	Currency	✓	✓	✓
	...	Theoretical and/or old price	Own-use	Theoretical price
Currencies	EUR	✓	✓	✓
	USD	✓	✓	✗
	GBP	✓	✓	✗
	JPY	✓	✓	✗
	CHF	✗	✓	✗
	SEK	✓	✓	✗
	NOK	✓	✓	✗
	DKK	✓	✓	✓
	CAD	✗	✓	✗
	AUD	✗	✓	✗
	NZD	✗	✓	✗
	PLN	✗	✗	✗
Country of issuance	EU	-	✓	-
	EEA	-	✓	-
	G10	✓	-	✗
	others	NO, DK, FI, AT, LU, IE, PT, ES, GR, AU, NZ	AU, NZ, US, CA, CH, GG, JE, KY, UK	DK

Source: national central banks, NORD/LB Markets Strategy & Floor Research

Covered bonds
Table: central bank eligibility of covered bonds (continued)

		Canada	Australia	New Zealand	Poland
		Bank of Canada	Reserve Bank of Australia	Reserve Bank of New Zealand	Narodowy Bank Polski
Eligibility criteria		link	link	link	link
Eligible securities			link	link	link
Category		Covered Bonds	ADI-issued, other securities	Covered Bonds	Mortgage Bonds
Rating requirements		AAA equivalent	ADI-issued >1y: min. BBB-/Baa3, ADI-issued ≤1y: public credit rating, other securities: AAA/Aaa	AAA/Aaa	-
Rating agencies		-	Fitch, Moody's, S&P	Acceptable rating agencies	-
Rating treatment		-	>1y: two ratings (average rating), ≤1y: one rating	at least two ratings; more than two ratings: at least two AAA/Aaa and no rating lower than AA+/Aa1	-
Min. volume (home currency)		CAD 1,000m	-	-	PLN 10m
Min. volume equivalent (foreign currency)		✗	-	-	✗
Own-use		✗	✗	✗	-
Haircuts based on	TtM	✓	✓	✓	✓
	Coupon	✗	✗	✗	✓
	Currency	✗	✗	✗	✗
	...	-	-	-	-
Currencies	EUR	✗	✗	✗	✗
	USD	✓	✗	✗	✗
	GBP	✗	✗	✗	✗
	JPY	✗	✗	✗	✗
	CHF	✗	✗	✗	✗
	SEK	✗	✗	✗	✗
	NOK	✗	✗	✗	✗
	DKK	✗	✗	✗	✗
	CAD	✓	✗	✗	✗
	AUD	✗	✓	✗	✗
	NZD	✗	✗	✓	✗
	PLN	✗	✗	✗	✓
Country of issuance	EU	✗	✗	✗	-
	EEA	✗	✗	✗	-
	G10	-	✗	✗	✗
	others	CA	AU	NZ	PL

Source: national central banks, NORD/LB Markets Strategy & Floor Research

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2021

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

SSA/Public Issuers:

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – German Bundeslaender 2021

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB holds course, but ups the ante – PEPP running until 2022

ECB launches corona pandemic emergency

ECB responds to corona risks

NORD/LB: Markets Strategy & Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuer Research

Bloomberg: RESP NRDR <GO>

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