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# **Covered Bond Credibility in Stress Scenario**

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## **A. Covered bond claims' privileged position over other claims (especially: depositors' claims) – Preference of bondholders**

The interests of depositors vs. the interests of long-term investors

### *Possible solutions:*

- (i) Specialist banking principle – no depositors
- (ii) Strong deposit-guarantee schemes
- (iii) Covered bonds allowed as a funding tool only up to a certain limit



## **B. Ring fencing of cover pool, safety rules for universal bank issuers, over-collateralization**

Buffers providing for liquidity:

- (i) Ordinary cover
- (ii) Mandatory and voluntary over-collateralization
- (iii) Virtual over-collateralization (i.e. stress-tests)
- (iv) Substitute cover



## **B. Set-off risk – good practice and legislation, model solution**

Is there any possibility to set-off claims before and after the declaration of insolvency of the issuer?

## **C. Liquidity in an insolvency situation – Another aspect would be the timely payment in case of issuer default**

- (i) What kind of opportunities does the cover pool administrator have to maintain liquidity?
- (ii) Which are the expectations of investors and rating agencies?



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**Thank you for your attention!**

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