

Course Outline

Covered Bond



Copyright:

This write up is the property of Vinod Kothari & Company and no part of it can be copied, reproduced or distributed in any manner.



Covered Bond

Course Outline

Day 1

Session 1: Familiarization with covered bonds

- Covered bonds, corporate bonds and asset-backed securities.
- Covered bonds as a half-way house between corporate bonds and asset-backed securities.
- Key differences. Dual recourse nature, with partial linkage with the originator, and bankruptcy-protected recourse on assets.
- Types of covered bond structures – legislative structures and structural covered bond structures.
- Some recent innovations in covered bonds – conditional pass-through structures.
- Traditional and non-traditional asset classes.
- Application of covered bond structures to non-traditional asset classes.

Session 2: Global covered bonds markets

- Traditional and non-traditional markets.
 - Traditional markets and issuance in EU countries.
 - Issuance in non-traditional countries.
 - Motivations for issuers.
 - Motivations for investors.
- Past performance of covered bonds.
- Understanding risks in case of covered.
 - Covered bonds as case of inter-creditor ranking and desirability from a policy perspective.

Session 3: Rating of covered bonds

- Why is the rating of covered bonds linked with originator rating?
 - Key principles of notching-up the ratings.
 - Understanding and mitigating the risks of covered bond pools – asset liability mismatches, liquidity risks and structural risks. Quantifying and mitigating the risks.

Session 4: Legal structure of covered bonds

- Relevance of bankruptcy remoteness.
 - How is bankruptcy remoteness achieved in covered bonds transactions?
 - Is the bankruptcy remoteness of covered bonds tested? True sale issues.
- Legal issues on assignment of receivables.
 - Is there a super-priority under Bankruptcy laws?
- Position in case of covered bonds issued by non-banking entities.



Covered Bond

Day 2

Session 5: Cashflow modeling for covered bonds

- Understanding pool cash flows and the schedule of repayment of covered bonds.
- Understanding the mismatched cash flows.
- Prepayment risk, default risk and replenishment of cover pool.
- Modeling of the cash flows on spreadsheets.

Session 6: Case studies of covered bonds

- Some selected covered bond case studies.

Session 7: Accounting issues in covered bonds

- Accounting and disclosure for the cover pool.
- On-balance sheet accounting, but is the cover pool akin to self-owned assets of the originator?
- Accounting for the guaranteeing SPV.
- MTM valuation and accounting in the books of investors.

Session 8: Basel II, Basel III and covered bonds

- Covered bonds and capital requirements.
 - Capital requirements for the originator.
 - Capital requirements for the investors.
- Preferential treatment for covered bonds.
- Covered bonds and liquidity ratios – covered bonds as a part of liquid assets for liquidity coverage ratio.