Covered Bond Framework Analysis
Analytical Considerations: Austria

This report provides Scope Ratings' general view on i) the fundamental credit differentiation for Austrian covered bonds and ii) the support factors common to the three legal covered bond frameworks in Austria.

We believe the fundamental factors supporting Austrian covered bonds generally can lead to a credit differentiation of up to five notches above the Issuer Credit-Strength Rating (ICSR). Aspects specific to the issuer or covered bond type that are central to our fundamental support assessment could lower this fundamental uplift to three notches, however.

In Scope's covered bond methodology, the fundamental support assessment provides both a minimum credit quality at which an issuer's covered bonds can be rated above the Issuer Credit-Strength Rating (ICSR) and the anchor for an additional credit differentiation the cover pool analysis can provide. Figure 1 provides a simplified overview of analytical steps involved for Austrian covered bonds and the aligned potential rating uplifts.

Figure 1: Indicative fundamental credit differentiation for Austrian covered bonds

Country: AUSTRIA						
		Fundamental analysis			Cover Pool analysis	Covered bond uplift
Covered Bond Type	Primary collateral type	Legal framework support	Resolution regime support	Maximum fundamental uplift	Maximum additional Cover Pool support	Maximum credit differentiation above the ICSR
Pfandbriefe	Mortgages Public Sector	2	up to 3	5	up to 3	up to 8*
Fundierte Bankschuldver-schreibungen	Mortgages Public Sector	up to 2	up to 3	5	up to 3	up to 8*

Source: Scope; Credit differentiation is expressed as a rating notch above the bank's issuer rating (ICSR). * Covered bond ratings reflects the higher credit differentiation of the fundamental support or cover pool analysis. The maximum cover pool uplift is capped at three notches above the result of the fundamental support analysis

At the end of 2015 EUR 45bn of Austrian covered bonds were outstanding and we observe an average annual issuance of about EUR 10bn. Austrian banks have become more active covered bond issuers and started to balance funding profiles away from the more volatile senior unsecured funding and deposit funding. Bank´s aim to comply with new regulations, such as the net stable funding ratio also contributed positively to the increase in Austrian covered bond issuance

The domestic covered bond market remains fragmented in terms of issuers and programmes. Covered bonds can be issued under three different legal frameworks[1], adding to the complexity. We understand that the industry's efforts to consolidate the three existing legal frameworks into one are not very high on the regulatory agenda for now. Changes have been discussed for years, but have not progressed materially. We also have observed a low predictability and transparency of products' supervision and support when some Austrian covered bond issuers were restructured.

Investors in covered bonds issued by a bank under a moratorium (Heta), or a bank that was split into a 'good bank' and a state-supported entity (Kommunalkredit), did not receive timely and clear messages on how the strength of the instruments' second recourse, the cover pool, will evolve.

[1] Pfandbriefe can be issued under the Hypothekenbankgesetz and Pfandbriefgesetz - Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten. In addition, covered bonds can also be issued as fundierte Bankschuldverschreibungen, governed by the Gesetz betreffend fundierte Bankschuldverschreibungen

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Related Research

Covered Bond Rating Methodology, 22 July 2016

Covered Bond Framework Analysis - Analytical Considerations, 31 July 2015

European Harmonisation: Covered Bond Market Benefits – if Standardisation Stays Balanced , 20 October 2015

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While the covered bonds' security package ended up intact, investors had a long period of uncertainty about the availability and quality of sufficient cover assets – which in our view is not in line with a very high fundamental support.

We expect the European Commission's impetus for harmonisation of European covered bond frameworks may reduce current fragmentation. Systemic importance and fundamental support for Austrian covered bonds will need more time to be on par with other European countries, however.

Role of the legal framework and resolution regime assessment

Scope's covered bond ratings reflect the Issuer Credit-Strength Rating (ICSR), further enhanced by the higher credit support provided by:

a) The results of our fundamental support analysis of the legal covered bond framework and resolution and recovery regime, and

b) The credit benefits the cover pool analysis can provide.

In this report, we analyse the Austrian legal and bank resolution frameworks in the context of our methodology[2].

The legal framework analysis covers relevant aspects both before and after an issuer becomes insolvent. It provides a credit differentiation based on the clarity of provisions behind maintaining a high-credit-quality cover pool, as well as the situation where the cover pool is the sole source of repayment for a covered bond.

The resolution regime analysis also addresses how well statutory provisions avoid negative repercussions for the covered bond in a resolution. We assess i) whether covered bonds are impacted by a regulatory intervention, and ii) whether we believe the issuer's business model in combination with its liability and capital structure will allow regulators to preserve the bank as a going concern. We further identify iii) the importance of relevant covered bond types and the issuer's relevance for the market to understand incentives for market-led solutions. The analysis also reflects iv) whether the product's systemic importance might mobilise regulators, supervisors or the private sector to support and proactively avoid uncertainty among covered bond investors during a regulatory intervention. This analysis also reflects the track record of regulators and their proactive and transparent use of available resolution and restructuring tools – which we believe can also affect the stability and credit quality of covered bonds issued in a specific country.

Application to individual cover bond programmes

The below analysis applies to Austrian covered bonds in general. We are guided by the analytical considerations when we assign ratings to the covered bonds of individual issuers in Austria.

The results of our legal framework assessment applies to all issuers and all covered bond types. In contrast, the resolution regime assessment also reflects elements specific to the issuer or covered bond type. The assessment whether we believe the issuer is more likely or not to be maintained as a going concern in resolution and the issuers relevance for the respective covered bond market segment to result in a covered bond driven support can result in adjustments. These might lead to a different fundamental credit support when applied to individual covered bonds.

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[2] Covered bonds rating methodology, last updated 22 July 2016.

Fundamental covered bond support: Austria

Type of covered bond

Hypothekenpfandbriefe (Mortgage covered bonds)

Öffentliche Pfandbriefe (Public-sector covered bonds)

Fundierte Bankschuldverschreibungen (FBS – typically mortgage covered bonds

Indicative fundamental credit differentiation

Credit differentiation not dependent on covered bond type nor governing framework

Covered bond	Primary collateral type	Legal framework analysis	Resolution regime analysis
Hypothekenpfandbriefe	Mortgage	+2	up to 3
Öffentliche Pfandbriefe	Public sector	+2	up to 3
Fundierte Bankschuld-verschreibungen	Mortgage/ Public sector	up to 2[2]	up to 3

Legal framework assessment

Minimum requirements reached for all three frameworks…

Our analysis of the Austrian covered bond legal frameworks meet the minimum criteria to assign the potential credit differentiation under our methodology:

- Provisions are robust enough to ensure the cover pool is segregated from the issuer's insolvency estate.
- The frameworks also provide regulations that allow a bond's payments to continue after an insolvency[3] and that identified risks can be mitigated by overcollateralisation, which generally remains available after the potential insolvency.
- In addition, covered bonds benefit from specific regulatory oversight.
- At the same time, we observe that these frameworks remain relatively vague on liquidity or risk management for covered bonds, which are seen as best practice in the market.

…but maximum credit differentiation only passed by a small margin

Assigning the full credit benefit for the legal framework also reflects that a covered bond's risks are generally managed together with the bank's liquidity and risk management before a regulator intervenes in the issuer, and that the ongoing availability of OC over and above the legal minimum after regulatory intervention allows to mitigate the risk once crystallised. The absence of more specific management guidelines about liquidity and risk management or extra OC availability can make the credit support from the cover pool analysis more volatile, however.

Legal covered bond frameworks:

Two main covered bond types can be based on three, issuer-group-specific legal frameworks

The three covered bond frameworks in Austria are among the oldest in Europe. For historical reasons, and to reflect the banking sector's composition, Austrian covered bond bonds can be issued under three distinct frameworks; all of which share common characteristics.

The first framework, the Hypothekenbankgesetz dates back to 13 July 1899 (all subsequently amended). Next to Austria's mortgage bank act, covered bonds can also be issued under the secured bank bond act (FBS; Gesetz betreffend fundierte Bankschuldverschreibungen as of 27 December 1905) and the covered bond act (Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten – Pfandbriefgesetz as of 21 December 1927).

Austrian covered bonds comply with relevant regulatory definitions in the CRR

In 2010 these acts were amended to broadly align and comply with the main covered bond provisions of the Capital Requirement Regulation (CRR). However, compared to the EBA's proposal on best practice for covered bond frameworks and the debate on stronger European harmonisation (see European Harmonisation: Covered Bond Market

3 Fundierte Bankschuldverschreibungen can accelerate upon the issuer's insolvency when contractually agreed. To provide the full legal framework benefit we would need to analyse the programme-specific covenants to assess whether the acceleration leads to an expected loss for the investor.

Benefits – if Standardisation Stays Balanced), the current acts fall short of best practice with regards to the liquidity and risk management for covered bonds. We understand the Austrian covered bond association has suggested further amendments to reduce complexity (one common framework) and to enhance guidelines on risk management and transparency in line with best practice. Austrian regulators have not yet provided further guidance as to whether, and when, these proposals will be translated into a common framework or further aligned with best practice.

Segregation of cover pool upon insolvency

Cover pool only becomes segregated upon the issuer's insolvency…

The Austrian acts foresee an 'on-balance sheet' cover pool. When a deed is entered into the land registry or when debtors are notified and subsequently registered into the cover pool, the collateral becomes legally ring-fenced upon the default of the issuer. Further, setting off against the cover pool is no longer allowed by law. When the issuer become insolvent, the cover pool receives the status of a special estate (Sondervermögen), which segregates it from the remaining insolvency estate.

…but structure remains intact

The insolvency of the issuer will generally not impact the structure, terms and conditions of loans granted, and the covered bonds issued. Covered bonds will not accelerate upon the insolvency,unless contractually agreed.

Ability to continue payments after an issuer's insolvency

Special administrator can manage ongoing covered bond payments after the insolvency

Upon insolvency, a special administrator is appointed by the Austrian FSA (FMA, Finanzmarktaufsicht), which is tasked to ensure the full and timely payment of covered bonds and to manage the cover pool. The different frameworks provide comfort that a moratorium or an issuer's insolvency will not impact the ability to make the promised payments on covered bonds or derivatives in the cover pool.

Programme enhancements remain available

OC over and above legal minimum remains fully available..

Austrian covered bonds have a mandatory minimum OC of 2%, which has to be calculated using either a nominal (covered bond) or net present value (FBS) basis. Issuers can also commit to higher OC levels in their statutes, and any OC over and above the minimum requirements remains available after an insolvency and the potential segregation of the cover pool. As is typical for most covered bond jurisdictions, derivatives entered into the cover pool will not terminate upon the issuer's insolvency and will remain available.

…but could be challenged

We understand that, upon an insolvency, OC over and above the legal minimum can be depleted and used by the issuer because the acts generally allow that "not needed" OC can be removed from the cover pool. However, generally it will be challenging to prove which amounts are "not needed" and, in the case of the Heta cover pool, which contains excessive OC (more than twice the amount of outstanding covered bonds – see Appendix I: Austrian 'first ever' for covered bonds), this concept was not challenged by other creditors, despite undergoing severe haircuts for unsecured debt.

Liquidity and other risk management guidelines

Liquidity and risk management not in line with European best practice

The Austrian covered bond frameworks only provide relatively vague liquidity and risk management guidelines. As long as the issuer is viable, cover bond programmes only benefit from the general risk and liquidity management requirements that apply to banks. This might expose covered bond investors to market and liquidity risks if a covered bond were to be separated from an insolvent issuer.

While issuers have voluntarily improved transparency, we are not aware that issuers have voluntarily provided additional public liquidity or risk management provisions to reduce a covered bond's potential risks[4].

Sale of cover assets and bridge financing possible

Following an insolvency, the special administrator has a range of options to help the full and timely repayment of covered bonds.

This administrator might sell all or part of the covered bond programme (cover assets and outstanding covered bonds) to another covered bond issuer; take recourse to bridge financing; or sell parts of the cover assets to ensure payments on the covered bonds continue.

Covered bond oversight

Multiple oversight with…

The frameworks stipulate dedicated officers to monitor the cover pool (Treuhänder for Pfandbriefe or a 'Regierungskomissär' – for FBS), which are appointed by the Austrian Ministry of Finance. The cover pool monitors ensure that cover assets comply with regulations and are the only ones permitted by law to register new cover assets or deregister them. The frameworks provide clarity that the issuer's insolvency will not impact the monitor's role and duties to avoid negative credit impacts from adverse management. The cover pool monitor can become complemented by a 'Kurator', which represents the joint covered bond holders after an issuer's insolvency.

… the FMA's ability to sanction

Covered bond investors benefit from the cover pool's ongoing oversight by the bank's auditors (internal and external), which test compliance with relevant laws. The FMA and the National Bank of Austria (OENB) also have the right to order special audits on the cover pool, and the FMA can also order the issuer to carry out corrective measures.

Upon the issuer's insolvency, a dedicated special administrator, tasked with managing the cover pool, is appointed by the insolvency court (with the FMA's approval).

Other legal framework considerations

The Austrian covered bond frameworks currently just meets the minimum standards under our methodology. We believe ongoing industry efforts to improve frameworks, combined with the European debate on covered bond harmonisation, will eventually reduce complexity and improve credit protection for covered bond investors. We currently do not expect framework developments to become more visible before 2017, however.

To our knowledge, issuers have not extensively used the potential to introduce interest or foreign exchange risks into covered bond programmes, despite the less prescriptive risk management provisions in place. We understand this reflects that the on-balance sheet status of the programme and the covered bond funding are both integral and regularly used sources of funding, as opposed to being an opportunistic funding tool.

Resolution regime assessment

Additional credit differentiation of up to three notches possible…

In the Austrian context, covered bonds are excluded from a potential bail-in and have a moderate systemic importance. When regulators would likely restructure and maintain the issuer and its covered bonds upon a regulatory intervention, we would assign a positive credit differentiation for Austrian covered bonds of up to three additional notches.

…but considerations relating to the issuer or covered bond could lead to downward adjustment

The cohesiveness of domestic stakeholders is not as strong as in some other covered bond-intensive countries and the importance as refinancing channel for individual issuers varies. Coupled with a lack of clarity and predictability of regulatory actions observed in the case of two covered bond issuers, we believe the fundamental support of covered

[4] In 2015, Austrian Anadi Bank as the first Austrian issuer, set up a 'conditional pass-through' covered bond programme which strongly mitigates the maturity mismatch risk. Upon the inability to repay at the scheduled maturity date the repayment becomes extended to the legal final repayment date. Similarly to securitisations asset repayments are distributed on a pro-rata basis until all remaining outstanding covered bonds are repaid.

bonds and its status as a going-concern-instrument support cannot be regarded as straightforward. The above support assessment could be lowered to three notches for issuer or covered-bond-type specifics.

Translation of BRRD into national law

Covered bonds excluded from bail-in across all covered bond acts…

Austria was one of the first countries to fully implement the EU's Bank Recovery and Resolution Directive (BRRD). The translation into national law took effect on 1 January 2015 with the federal act on the recovery and resolution of banks (BaSAG). It explicitly excludes covered bonds from the bail-in, which applies to a bank's other eligible liabilities.

… and resolution of a "bank" already put in practice

Austria was also among the first to actively use the restructuring provisions. The FMA ordered a moratorium on Heta Asset Resolution AG – which no longer is an active bank but the workout entity of failed Hypo Alpe Adria Bank – and subsequently applied a bail-in to senior unsecured debt. Heta's public-sector covered bonds were not affected by the moratorium and were excluded from bail-in. Further, even though covered bonds had recourse to a very high level of OC, we are not aware that any OC was released to increase the potential recoveries of unsecured debtholders.

Systemic relevance of mortgage and public-sector covered bonds in Austria

Moderate systemic importance…

We classify both Austrian mortgage and public-sector covered bonds as refinancing products with a moderate systemic relevance. On average, the combined outstanding volume has accounted for about 13% of GDP since 2010 and annual issuance has stayed above EUR 10bn, according to ECBC statistics. At the end of 2015 twenty-seven banks, comprising all large and most midsize banks in Austria, are licensed to issue covered bonds. The number of 47 active covered bond programmes indicates that most issuers use both mortgage and public-sector covered bonds as a funding source.

… even though 27 issuers with 47 programmes are active evidencing widespread use

The number of active covered bond issuers has more than doubled since 2003, which also holds true for the annual issuance and outstanding amount of covered bonds that doubled after the financial crisis. Despite the recent revived interest, Austrian covered bonds have been a longstanding feature of the domestic capital markets.

Before 2007 most domestic banks were either wholesale- or deposit-funded, or, as in the case of Austrian state-owned mortgage banks, could issue unsecured debt, which benefited from their state owners' deficiency guarantee[5].

Strong growth of mortgage covered bonds that now surpass public sector covered bonds

EUR 45bn covered bonds outstanding at year end 2015

When the financial crisis hit in 2008-09, Austrian banks swiftly revived interest in covered bonds and, in particular, increased their use for mortgage funding. Within 10 years, the volume of outstanding mortgage covered bonds increased from about EUR 4bn to more than EUR 27bn at the end of 2015. The growth of mortgage covered bond issuances also allowed this covered bond type to surpass public-sector covered bonds in terms of outstanding volumes. At year end 2015 the volume of outstanding public sector covered bonds amounted to EUR 17.6bn resulting in a total volume of Austrian covered bonds of EUR 45bn. In line with the increased issuance, we also observe that Austrian covered bonds are not only increasingly placed with international investors, but are also used for ECB repo-targeted covered bond funding, evidencing their importance in the issuers' funding toolkit.

Most active covered bond issuers make use of mortgage and public-sector covered bonds and we generally do not distinguish between their systemic importance. Over time, we expect mortgage covered bonds to become systemically more important, however.

[5] Following the April 2003 agreement with the European Commission, Austrian Landeshypothekenbanks were since April 2007 no longer able to issue guaranteed debt. The deficiency guarantee was considered state aid and allowed to equalise the credit quality of the bank debt with that of their ultimate owners, the respective Austrian federal states.

We will continue to monitor the market to identify whether the number of public-sector programmes, issuance volumes or placement patterns shifts materially, potentially leading to a different support assessment under our methodology.

Small program size or sporadic use might impact our issuer specific support assessment

The distribution of relative market shares for Austrian covered bonds might lead to a different assessment of systemic importance for issuer programmes. At the end of 2015 the two largest issuers, Erste Group Bank AG and Unicredit Bank Austria AG, comprised 45% of outstanding covered bonds. As a result, covered bond programmes of other issuers might be very small – both in absolute terms and relative to issuer's balance sheet. We therefore could assign a lower credit differentiation to individual programmes if an issuer does not use its covered bond programme regularly, but only opportunistically, or would even unwind an existing one.

Stakeholder support

Lack of stakeholder cohesiveness and regulatory track record does not allow the provision of the maximum fundamental credit differentiation

The lower cohesiveness of Austrian stakeholders and prolonged uncertainty due to the regulatory intervention of two issuers suggests a limit to three notches regarding the maximum credit differentiation Scope allocates for the benefits of resolution.

We observe a less pronounced stakeholder cohesiveness compared to other more covered bond-intensive countries. This is despite our view that the systemic importance and use of mortgage covered bond funding in Austria is set to further increase. Austrian covered bond issuers have established a common industry lobby but the industry's efforts to combine the individual acts into one comprehensive framework, and to further align the risk management provisions with best practice, have not seen too much traction. However, their efforts have already resulted in the introduction of minimum OC requirements and voluntary, harmonised transparency reporting guidelines, effectively allowing most Austrian covered bonds to benefit from preferential regulatory risk weightings and favourable LCR treatment.

We attribute the lower effectiveness of the lobbying group not only to the presence of several distinct banking groups with individual agendas, but also to the differing support mechanisms. This could mean an ailing issuer might receive intra-sector support rather than receiving combined support, due to its role as a covered bond issuer.

Further, the track record, which includes the predictability and transparency of regulatory actions for covered bond issuers and their programmes, has room to improve. In our view, the lack of transparent communication with regards to the covered bond programmes of two ailing banks has dampened the appeal of Austrian covered bonds for international investors and has also led to an increase of funding costs impacting all covered bond issuers.

The absence of a more proactive communication by industry stakeholders and the prolonged uncertainty among investors support our view that the fundamental support for Austrian covered bonds is not as strong as in some of the other countries already analysed.

Issuer-specific considerations could result in downward adjustments. Among others these would be related to our view of the issuer's resolvability, the importance of covered bond funding for the issuer as well as the covered bond type's domestic relevance.

Appendix I: Austrian 'first ever' for covered bonds

Observed workouts for covered bond issuers in Austria demonstrate that covered bond investors have not benefited from very strong and aligned stakeholder support, resulting in uncertainty on the credit quality of covered bonds. Even though the regulator used available resolution tools and to date covered bond investors were fully and timely repaid, we believe that the use of available tools lacked the predictability and transparency we would expect to see in countries that benefit from the maximum fundamental credit differentiation in our covered bond methodology.

Kommmunalkredit Austria issuer split also prompts split of cover pool and CB reallocation

Kommunalkredit Austria was an issuer of public-sector covered bonds (FBS) that had to be nationalised by the Austrian authorities during the financial crisis. The restructuring plan approved by the European Commission expected the Austrian state to privatise KA (old) by 2013. As the sale did not taken place until 2015 the authorities decided to facilitate the sale by splitting it into KA new (Kommunalkredit Austria AG) and KA Finanz (KA Finanz AG), announced in March 2015. While KA Finanz is still fully owned by the Austrian state, KA new was sold to a private-equity consortium. At the same time, it was also announced that the cover pool would be split. Investors in KA covered bonds, among others, did not receive timely tangible information on:

- What the supporting entity (KA new or KA Finanz) for their covered bonds is going to be;
- Whether there are guidelines on how the split of the cover pool is going to look or whether a minimum credit quality will be ensured; and
- What the status of the supporting OC (the issuer had committed to a minimum OC of 28%) is going to be.

We are not aware that either party provided investors with tangible information on those aspects, nor that regular cover pool transparency was provided in between. Neither did other stakeholders such as regulators provide any other information to investors to provide comfort that the quality of the cover pool, the outstanding covered bonds and their maintenance will be ensured.

We would expect that in countries where covered bonds hold a very high importance, investors should receive more and timelier certainty on the stability and credit quality of the impacted covered bonds.

Heta resolution and bail-in did not impact its covered bonds, but...

Carinthian Hypo Alpe Adria Bank AG (later renamed Heta Asset Resolution AG or Heta) had to be bailed out by the Austrian authorities. Initially an orderly workout of the issuer was communicated. Following the 2015 asset quality review, the going concern valuations were challenged and a significant loss of between EUR 4bn to EUR 7bn was identified. As the Austrian Ministry of Finance was not willing to provide further support, the FMA on 1 March 2015 decided to use the BaSAG (Austrian translation of the BRRD) to wind down the issuer and place Heta into a moratorium.

Heta's public-sector covered bonds were not impacted by the moratorium and continue to be serviced on time. However, in KA's case, there was little transparency on the status of the covered bonds. The current covered bond framework does not stipulate mandatory public reporting of cover pool information, and the state-owned issuer did not provide any – either voluntarily or on a timely basis. Investors were concerned about adverse credit changes and in particular that the significant OC (according to third parties, about 250%) would be reduced to the legal minimum.

In March 2016 some uncertainty was removed when the FMA announced the bail-in ratios for senior unsecured debt (writedown to 46%) and lower-tier debt (full writedown). In line with the spirit of the BRRD, the FMA confirmed that covered bonds would not be affected.

Appendix II: Key characteristics of the Austrian covered bond frameworks

Issuer	Universal bank with a special licence to issue covered bonds. Issuer does not need to be the originator as issuers can also pool cover assets originated by other banks (typically from the same group).
Cover assets	Mortgage assets (residential, commercial and agricultural assets within the EU/EEA and Switzerland; no restriction on respective shares). Exposures to public-sector entities or public-sector-guaranteed entities in the EU/ EEA and Switzerland. Substitute assets (max. 15% of the covered bonds outstanding) can comprise exposures to eligible public-sector issuers, bank deposits and cash. Derivatives (only to hedge risks – no specific restrictions volumes or eligible counterparties).
Loan-to-value restrictions	Mortgage loans: Max. 60% mortgage lending value (MLTV – Beleihungswert) for both residential and commercial loans; FBS law does not prescribe a specific LTV threshold, but issuers of mortgage-backed FBS follow the same requirements. Valuation: There are no covered-bond-specific valuation guidelines, but MLTV has to be lower than the market-value-based LTV. Also, no regular and covered-bond-driven revaluation requirements are stipulated in the acts. To benefit from low risk weightings under the CRR, issuers regularly update valuations, typically also for cover assets. Further, as the cover pool monitoring officer needs to ensure the cover pool is adequate and LTV thresholds are maintained, they typically also review the ongoing compliance to LTV. Covered bond investors have a preferential claim on the cover assets, including recovery proceeds if the mortgage loan exceeds the MLTV.
Market and liquidity risk guidelines	Natural matching of in- and outflows without any detailed regulations on stress testing. No specific requirements on liquidity risk management.
Coverage principle/Minimum OC	2% nominal OC for covered bonds issued under the covered bond or mortgage bank act; FBS only requires coverage of principal and interest. In case the issuer commits to a minimum OC, it has to be at least 2% on an NPV basis – after considering market risk stresses.
Treatment upon insolvency	Insolvency of the issuer does not impact the ability to make uninterrupted payments on the covered bonds; No acceleration upon insolvency.
Mandatory transparency	No mandatory transparency – most banks publish information voluntarily to comply with CRR 129 (7).
UCITS/CRR compliance	Both covered bond types comply with UCITS and CRD.
Trustee/Special supervision	Auditors (internal and external) monitor ongoing compliance with covered bond acts. FMA and the OENB have the right to order cover pool audits, with the FMA able to order corrective measures. The cover pool monitoring officer (Treuhänder or Regierungskomissär – for FBS) is appointed by the Austrian Ministry of Finance. This officer ensures cover assets comply with regulations and approves the registration of such assets; the officer's role and duties are unaffected by the issuer's insolvency, and can be complemented by a 'Kurator', which represents the joint covered bond holder.

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