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# Request for Comment: Approach to Determining the Issuer Anchor Point for Covered Bond Ratings

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## RFC and Background

- » On 19 September, Moody's published a Request for Comment on "***approach for determining the issuer anchor point for Covered Bonds***"
  - » **Background:**
    - » EU Council/ECOFIN announcement and draft Directive, 27 June 2013.
    - » Covered bonds clearly excluded from bail-in
    - » Strong expectation that bail-in tool will be used in conjunction with bank resolution under the Directive
- = Sufficient certainty to propose an initial methodology adjustment

# The RFC Proposal

- » The probability of *issuer default* is the starting point (*anchor point*) for all our covered bond ratings.
- » **Current anchor point:** the issuer's/supporting entity's senior unsecured debt/deposit rating (SUR)
- » The revised anchor point is relevant to both our Expected Loss (EL Model) and TPI Framework:
  - » Under our Expected Loss modelling =>  $EL (covered\ bonds) = PD (issuer) \times cover\ pool\ losses$ .
  - » Under our TPI Framework => CB rating typically capped at the level indicated by our TPI table, depending on (1) **issuer rating** and (2) TPI assigned to programme.

- » The **new anchor point** for covered bond ratings would be the higher of:
  - (a) the issuer's adjusted BCA + 0-2 notches; or
  - (b) the issuer's SUR + 1 notchwith the number of notches depending on the level of unsecured debt / total liabilities.  
*Exception:* SUR+0 where very material government support already incorporated.

## Scope and Impact of the RFC

- » Final methodology will be based on RFC, after review of comments received.
- » RFC is an initial, interim step – there remain many uncertainties around implementation of bank resolution.
- » Initial impact on ratings would affect CB rated
  - (a) below Aaa and
  - (b) below country ceiling.In addition, OC levels will be affected.

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