
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations provide a new legislative framework for covered bonds in the UK. The Regulations implement Article 22(4) of Council Directive [85/611/EC](#) of 20 December 1985 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (“UCITS Directive”) (as inserted by Directive [2001/108/EC](#) of 21 January 2002); Article 22(4) of Council Directive [92/49/EC](#) of 18 June 1992 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance (“Third Non-Life Directive”); and Article 24(4) of Directive [2002/83/EC](#) of the European Parliament and of the Council concerning life assurance (“Consolidated Life Directive”). The relevant requirements of the UCITS Directive, the Third Non-Life Directive and the Consolidated Life Directive are in the same terms. These Regulations also implement paragraph 68 of Annex 6 to Directive [2006/48/EEC](#) of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions (“the Banking Consolidation Directive”).

A covered bond is a class of corporate bond, issued by credit institutions and backed by certain assets, normally mortgages or public sector loans. Interest and repayments of principal is payable out of ring-fenced assets (“an asset pool”) backing the bond. Covered bonds that comply with the UCITS Directive (and equivalent requirements in the other Directives referred to above) benefit from higher prudential investment limits under the UCITS Directive and lower risk weights under the Banking Consolidation Directive.

The Regulations establish a new regime supervised by the Financial Services Authority (the Authority) and take account of UK practice in relation to covered bonds. In the UK, covered bonds are issued by credit institutions. The issuer lends the sums derived from the bonds to a separate legal entity owned by another person (“the owner”). The owner uses the sums to purchase property which it holds in an asset pool. The owner agrees to guarantee the issuer's obligations to the covered bond holders. The loan is repaid once the bond holders' claims to the principal and accrued interest have been met.

Part 1 of the Regulations provides definitions. Part 2 sets out the functions of the Authority and provides for it to have regard to certain considerations, including the need to preserve investor confidence in regulated covered bonds in the UK. Part 3 requires the Authority to maintain a register of issuers and a register of regulated covered bonds and sets out the registration process. Part 4 imposes requirements on issuers and Part 5 imposes requirements on owners. In particular, the issuer and the owner must make arrangements for the maintenance and administration of the asset pool so that the claims of bond holders and other specified parties may be met. Part 6 establishes that regulated covered bond holders and other specified persons must be paid in priority to all other creditors, after the payment of expenses of the receivership or winding up etc. Part 6 also provides for certain expenses incurred by a receiver or liquidator etc. to rank above the payment of all other expenses. Part 7 sets out the enforcement powers of the Authority and the Courts. Part 8 confers functions on the Financial Services and Markets Act Tribunal and Part 9 (and Schedule 1) contain provision for notification of the European Commission, guidance to be issued by the Authority and various modifications of primary and secondary legislation.

A Transposition Table setting out how the elements of the above Directives will be transposed into UK law is available from the Financial Stability and Regulatory Policy Team, HM Treasury, 1 Horseguards Road, London, SW1A 2HQ. The Transposition Table is also available on HM Treasury's website (www.hm-treasury.gov.uk).

A Regulatory Impact Assessment has been produced for this instrument and has been deposited in both Houses of Parliament. It is available either at the above address or on HM Treasury's website.

Changes to legislation:

There are outstanding changes not yet made by the legislation.gov.uk editorial team to The Regulated Covered Bonds Regulations 2008. Any changes that have already been made by the team appear in the content and are referenced with annotations.

[View outstanding changes](#)

Changes and effects yet to be applied to :

- Regulations power to modify conferred by [2023 c. 29 s. 3Sch. 1 Pt. 2](#)
- Regulations revoked by [2023 c. 29 Sch. 1 Pt. 2](#)